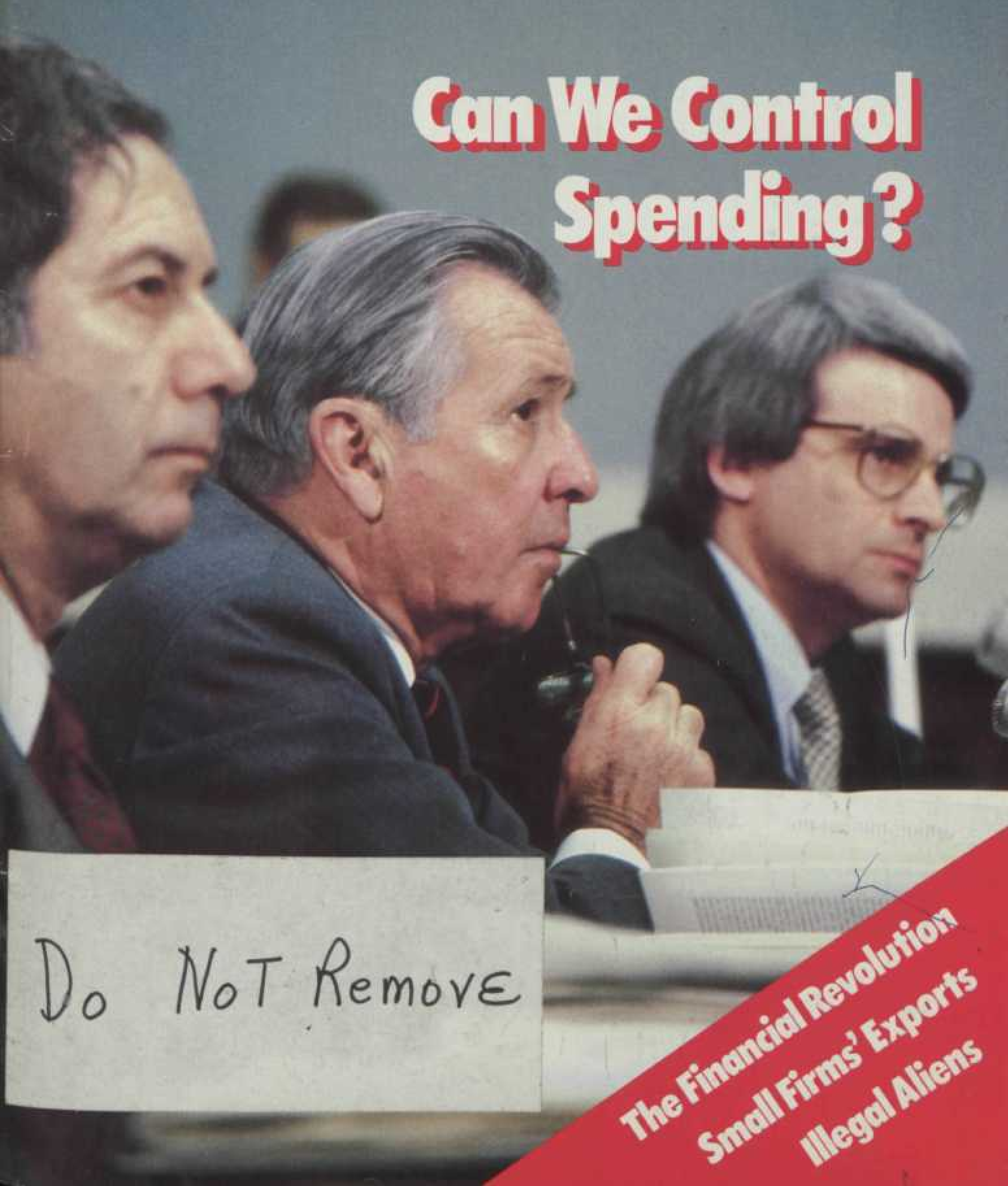
The Business Advocate Magazine

Nation's Business

April 1982



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Departments

Cover Photo (of Council of Economic Advisers Chairman Murray Weidenbaum, Treasury Secretary Donald Regan and Office of Management and Budget Director David Stockman at a congressional hearing): Dennis Brack—Black Star. Illustration this page: Jack Lefkowitz. Photos (from left): Stephanie Maze—Woodfin Camp; Paul Fetters; Sepp Seitz—Woodfin Camp.

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WASHINGTON LETTER

▶ WHO'S WINNING budget battle? For clues, watch what happens to personal tax cuts and entitlement programs (such as Social Security, food stamps, student loans). Entitlements, at 45 percent of budget last year, are most rapidly growing segment. If tax cuts are reduced and entitlements are not, result will be record for share of gross national product flowing through Washington--that is, bigger government. If neither is cut? Bigger deficits. Those unpleasant alternatives are producing bitter divisions in Congress. Tax-deficit trade-off is also dividing business organizations.

▶ WILL BIG DEFICITS in federal budget crowd out private borrowers and raise interest rates? No, says Treasury Secretary Donald Regan. He acknowledges "pressure pushing rates both ways" but says downward pressure from decline in rate of inflation is "much stronger" than upward pressure from deficits.

▶ AVERAGE WELFARE FAMILY has done better in recent years than comparable nonwelfare family, Reagan administration points out in defense of its proposed budget cuts. Typical welfare family of four in 1970 received aid to families with dependent children, Medicaid and school lunch benefits equal to $7,548 in 1980 dollars. By 1980, value of those benefits had increased to $8,124. Nonwelfare family with same after-tax income in 1970--and average wage increases since--had only $7,224 after taxes in 1980. That's a 4 percent decrease in purchasing power.

▶ IT'S A MYTH that most Social Security recipients are needy. Typical recipient in 1978 was married couple with total income of $12,169. Since 1974, Social Security payments have increased 28 percent faster than spendable weekly earnings. These points are made by Richard Rahn, chief economist at U.S. Chamber of Commerce, in support of one-year freeze on all federal programs with payments tied to cost of living.

▶ FEDERAL LOANS and credit subsidies of various kinds raise interest rates and "crowd out less favored borrowers from the market," says Murray Weidenbaum, chairman of Council of Economic Advisers. He pledges administration effort "to get hold of this problem." Growth of federal credit activity is upsetting many economists. Federal credit averaged 13.5 percent of total credit in 1972-78 period. For fiscal 1981 it was 21.2 percent--down only slightly from peak of 23.3 percent year before.

▶ SCARE TACTICS used by National Clean Air Coalition in struggle over revision of Clean Air Act are backfiring. Group has been distributing list of 312 major plants in 39 states alleged to "emit large amounts of unregulated air pollutants that are known or suspected to cause cancer." Preliminary investigation by government officials and industry representatives discloses that some plants on list do not exist, and many others do not use chemicals attributed to them. Companies victimized are fighting mad.

▶ TAX CHEATING by individuals and corporations "is a serious problem and is getting worse," according to General Accounting Office. GAO investigators say IRS enforcement efforts are falling behind as number of tax returns grows. Combination of fraud and unintentional

mistakes may be costing federal government more than $70 billion a year, agency says. Collecting that much additional revenue would put big dent in expected deficits.

▶ REDUCING TAX EVASION is objective of bill (S. 2198) recently introduced by Sens. Robert Dole (R-Kans.) and Charles Grassley (R-Iowa). It would require Treasury and brokerage firms to report customer transactions to IRS, states to report tax refunds, and restaurants to report tips paid by credit card. Also, tax would be withheld from annuity pension payments unless recipient objects. Federal interest rate paid on refunds would be calculated every six months rather than annually. Penalty of 10 percent of taxes owed would be imposed on taxpayers who contest published IRS interpretations without fully stating reasons on their tax returns. Reaction of business representatives is mixed: Some fear new red-tape burden; others say bill is improvement over previous proposals to withhold on interest and dividends.

▶ CRIME will soon become major issue, many Washington observers are betting. Problem may be even more serious for business than for individuals. Survey of Delaware Valley businesses by First Pennsylvania Bank, Philadelphia, found that 68 percent of respondents have been victimized within last two years. It's difficult issue for federal government to get handle on, though. States have primary legal responsibility. And throwing federal money at problems is no longer in fashion.

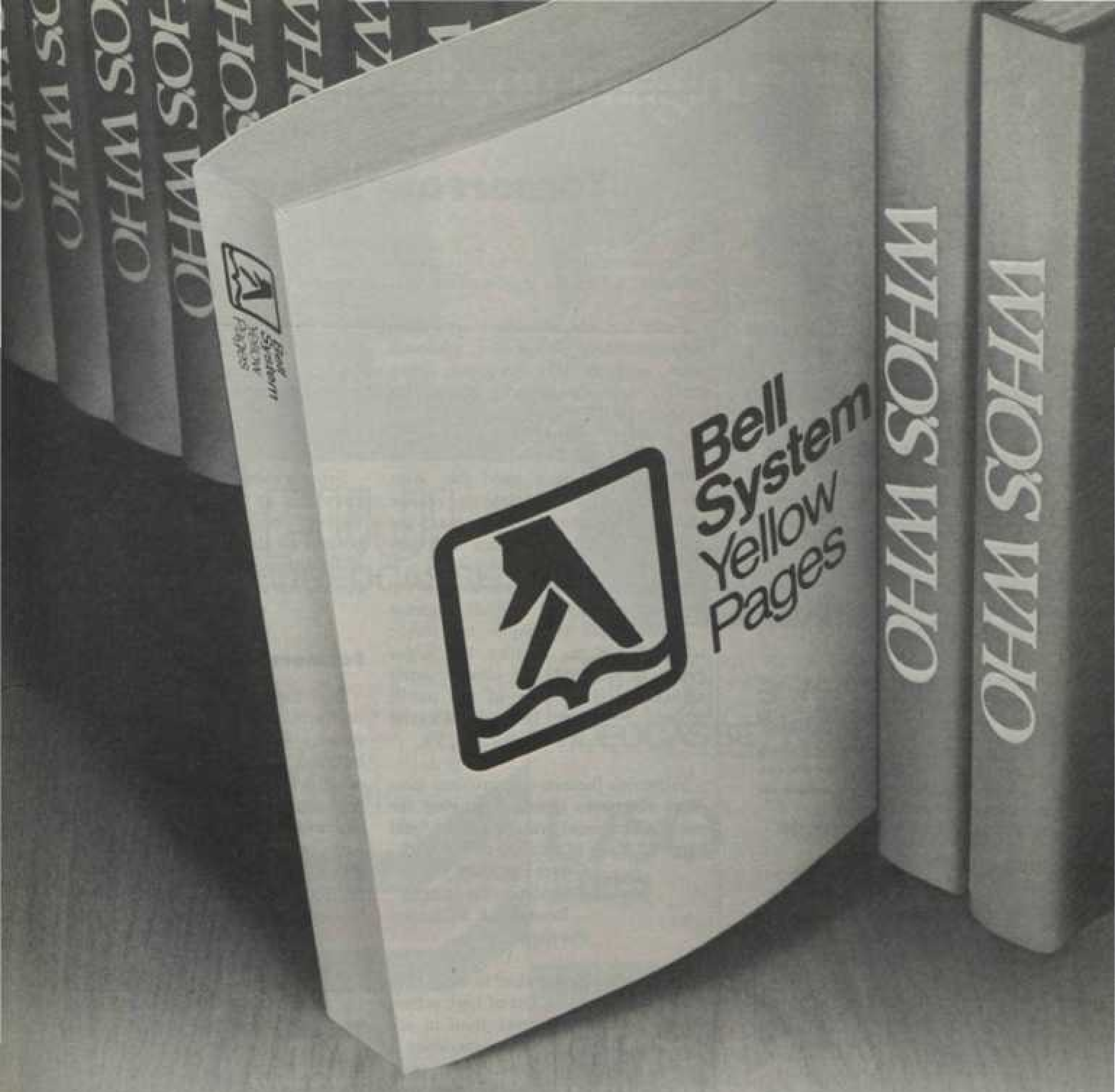
▶ PENSION PLAN security at more than a score of "very large firms" with "financial difficulties" is worrying federal Pension Benefit Guaranty Corporation. Unfunded liability of these plans totals about $6 billion.

▶ PENSION INSURANCE PREMIUMS are going up. Way up. Trustees of Pension Benefit Guaranty Corporation are recommending rate increase to at least $6 per employe per year. It's now $2.60. Recommendation is for $11 rate if Congress doesn't make some cost-cutting changes in Employee Retirement Income Security Act that are favored by trustees (secretaries of Commerce, Labor and Treasury). Business representatives have some objections to pending legislation (H.R. 4330 and S. 1541) but see opportunity to make some ERISA reforms desired by business. Rate hikes must be approved by Congress. Approval is likely, say knowledgeable observers.

▶ AGE DISCRIMINATION charges are rising sharply, according to report by House Select Committee on Aging. Equal Employment Opportunity Commission received nearly 9,500 complaints in 1981, which is 75 percent increase over 1979 figure.

▶ WATCH OUT for Social Security foul-ups for next year or two. System will be installing new computers to cope with growing backlog. Commissioner John Svahn says present computers could make $8.5 billion in payment errors over next five years if not replaced. Anticipated cost of $479 million for modernization program will be met from trust funds. No action by Congress is required. System is now weeks behind in issuing new cards, and it's years behind on earnings records.

▶ WORKERS' COMPENSATION costs continue to outpace inflation. Latest figures available--for 1979--show that employers shelled out more than $20 billion, up nearly 18 percent from 1978. Expect more of same. Benefit maximums were hiked last year in 46 states. Information is from "Analysis of Workers' Compensation Laws," published annually by U.S. Chamber of Commerce. New edition, now available, tracks federal and judicial developments, provides state-by-state comparisons of insurance requirements, and includes names, addresses and telephone numbers of state officials. Also included: Canadian federal, provincial and territorial acts. Single copies are $8 from Chamber, 1615 H Street, N.W., Washington, D.C. 20062. Attention: Data Processing.


WHO'S WHO
Bell System Yellow Pages
WHO'S WHO
WHO'S WHO

Tomorrow's Leaders

Re: James J. Kilpatrick's February column, "A Plea for Impoverished Children."

Public schools shoulder gargantuan responsibilities. Whenever problems arise, such as drug addiction, drunk driving or teen-age pregnancies, the public cries, "Why don't they teach it in the schools?" Result: They teach it in the schools.

The schools do a good job. Most teachers and administrators realize that they are often family to many pupils. They teach the basics and they persevere.

Kilpatrick states, "There always will be a small cadre of brilliant students ... who make it despite the public schools." Let me mention the larger group he omitted—the slower pupils who make it because of the public schools.

BETTY W. WEAVER
Midlothian, Va.

Kilpatrick focuses on a problem most of us choose to ignore. Changing the public educational system will not "just happen." Each of us must do our part.

GWEN ERICCSEN
Foundation for Oregon Research & Education
Portland, Ore.

Educators I have talked to insist that the students coming out of high school today are much smarter than in my day. But from my own experience I have to strongly disagree.

Though I didn't complete high school, I'm finding that today's high school graduates have less knowledge of the three R's than I do. I don't mind the expense of training someone for a job in my business, but when I also have to teach them to read, write, add and subtract, that is too much.

EUGENE M. THOMA
President
Sheldon Auto Supply, Ltd.
Sheldon, Iowa

Schools today teach what is needed to know, just as they did in days gone by. Without drug education, I might have become an abuser. Without the benefit of field trips, I might not have come as far as I have.

MARY SHOPE LINTON
Columbus, Ohio

Farmers' plight

Re: "Edging Toward a Free Market in Farming" [February]. Were the farmers who are being forced out of business at the rate of 2,000 a week asked whether the 1981 farm bill is a "bill nobody likes but one everyone can live with"? The safety net price supports are already set far below the average cost of production. It is the farmer, not the consumer, who is being burdened with excessive costs.

B.N. STOKES
Stokes Farm Supply
Portales, N.M.

Thanks, please send more

Your readers may be interested in the status of the Great American Flag project, which you reported on last July ["Reaching for the Stars With Old Glory"], prompting many contributions and letters of encouragement.

The cost of permanent rigging to fly the flag from New York's Verrazano-Narrows Bridge—the only place to fly a 86,379-square-foot flag—is currently estimated at $750,000. We have $25,000

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WASH/E/2

on hand and pledges of $125,000 contingent on completion of fund raising.

International Iron Workers Union President Jack Lyons and his union are spearheading a drive to raise $250,000 from organized labor. We need double that from the business community. Contributions may be sent to P.O. Box "Flag," New York, N.Y. 10022.

LEN SILVERFINE
President
Great American Flag Fund
New York, N.Y.

Zinc pennies revisited

Re: "The Penny With a Heart of Zinc" [Outlook, February]. My father, William J. Keller, received a presidential citation from Franklin D. Roosevelt for his suggestion to mint zinc pennies during World War II so the copper could be used for the war effort.

Dad admitted that he was cursed by public transit drivers when these zinc pennies were mistakenly dropped in fare boxes for dimes. However, he always reminded everyone that many a soldier didn't run out of bullets due to this copper saving. Certainly the copper cladding of the new zinc-heart pennies will keep transit drivers happy—although I wonder whether transit fare boxes are even geared for dimes any more.

WILLIAM A. KELLER
President
Keller Manufacturing Company
St. Louis, Mo.

A job or a warm feeling

Re: "Don't Make Applicants Feel Like Supplicants" [January]. According to the American Heritage Dictionary, supplicate means to make a humble and earnest petition. I think supplicant is an apt description of an applicant, someone who is petitioning for a job.

A potential employer owes the applicant nothing. He's the one with the power to give the applicant a job. To be shown common courtesy gives a person a warm feeling, but few applicants are in the position to quibble about etiquette. With the unemployment rate as high as it is, you have to be creative and aggressive when looking for a job.

I think that anyone who squabbles over business manners when pursuing a job really doesn't want the job badly enough to deserve it.

NANCY R. MYERS
Cincinnati, Ohio

BY JAMES J. KILPATRICK

How Do We Get Out?

ALL THEY TALK about in Washington these days, or so it seems, is the fiscal mess we are in. Along the Mall the tulips are coming up. In the little park at Connecticut and 17th, it once again is girl-watching time. Spring is on its way, and in another few weeks Washington will be once more the most beautiful capital in the world. None of this seems to lift the heart. My city is down with the bow-wows.

Very well, then, let us talk about the mess we are in, and let us put these matters bluntly. Our nation is a trillion dollars in debt. We will pay a net interest on that debt this year at the rate of almost $10 million an hour—$83 billion in all. Mr. Reagan projects deficits through 1985 of $344.9 billion. The Congressional Budget Office says, no, more likely $500 billion for the period. The figures are as insubstantial as fog. No one can get a grip on a billion of anything.

What we can understand is the human tragedy of massive unemployment. We can understand the painful realities of bankruptcy. It takes no great feats of imagination to imagine the hardships that lie ahead for many middle-income and low-income families.

How do we get out of this mess? We begin by understanding how we got into it in the first place. There is plenty of blame to go around. For 50 years, we have been off on a credit card binge. The debts that were rolled up in World War II were unavoidable, but the debts that came later were not unavoidable at all. Did we want a little war in Korea? Put it on the cuff, Harry. Did we want a bigger, longer war in Vietnam? Charge it, Lyndon! Would we deny ourselves any desirable program here at home? Not for a moment. Without much conscious thought, we bought one pretty proposition after another. We bought more education, more housing, more health care, more safety, more welfare. We bought public broadcasting and aid to the arts and subsidies for trains and trams and merchant ships. We bought everything that pressure groups had to sell.

There was just one thing wrong: We didn't want to pay our bills. Old Harry Hopkins, so it was said, advocated policies of "spend and spend, and tax and tax," but his successors were not so responsible. We kept electing public officials whose credo was spend and spend, and borrow and borrow. How do you think we got to that trillion-dollar debt? We got there by charging a few billion here and a few billion there; and after a while, in Everett Dirksen's famous phrase, it began to add up to real money.

We lost our sense of self-discipline, and we lost something else as well. We created a society so dependent upon the crutches of government that we have forgotten how to walk by ourselves. We abandoned those American characteristics that once we regarded as fundamental principles—moderation, frugality, thrift, self-reliance, old-fashioned virtue. How could we have been so foolish?

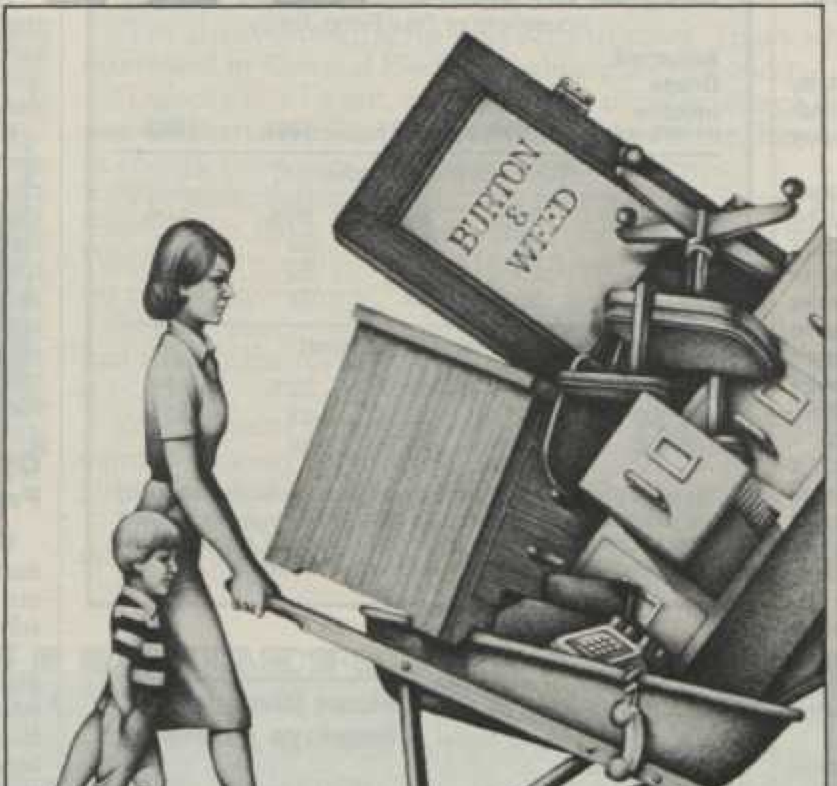
All right. The question is, how do we get out of the mess? We get out the same way we came in: slowly. It won't be easy, but it won't be impossible, either.

Several things will help us. One is perspective. Another is confidence. Distressing as the deficits are, they are not, speaking literally, "intolerable." As a percentage of gross national product, we have tolerated worse deficits in the past. Lamentable as our desertion of old principles may be, we have not turned our backs entirely on the old ways. We are not a second-rate nation. We are not broke. We have tremendous resources, both spiritual and material, and we ought to have confidence in them.

ONE OF THE old refrains was to this effect, that government should do for the people only those things the people cannot do for themselves. Government never was meant to be a national nanny, holding our hands, wiping our runny noses. It is one thing—a good and proper thing—for all of us collectively, through our taxes, to aid the lame, the halt and the blind. It is another thing entirely—an evil thing—to force canes and crutches on those who are capable of walking. Nothing could be more destructive than to continue the enervating policies of recent years, by which we slowly and subtly have robbed our people of the uses of themselves.

We get out of the national mess precisely as we would get out of a family mess. We understand our folly. We determine not to let it be repeated. We do not panic. We stand together. Family budgets and national budgets are all alike: They consist of income and outgo. Therefore we must find reasonable ways to increase the national income and to reduce the national outgo. This means that we must save more and work harder. It means that we must ask one hard question of every proposed outlay: Is it essential? If it is not essential, we must do without it.

These are hard rows to hoe, but with luck and persistence and self-denial, we will not have to hoe them forever. Five years hence, when spring comes again along the Potomac, we could be out of this mess and talking of tulips instead. □



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Unfortunately, your business may not be worth much without you. Your family might not want to keep it going. Or worse, they might try, and fail. But that's a risk you needn't take. With a Buy/Sell Agreement, funded through Prudential, they'll receive the value of the business in cash, rather than the business itself.

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When you die, the buyer gets the money—exempt from income tax—and uses it to buy the business interest from the estate. The proceeds then go to your family.

A Buy/Sell Agreement means, in short, that you determine who will buy your business interest and what will be paid. And you know the money will be there when it's needed. Call your Prudential agent about this very important piece of protection for your family and your business.

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OUTLOOK

THE ECONOMY

Recession Produces Uneven Impact

What states and what industries are the most vulnerable when the economy turns sour?

The 1980-81 national business cycle, as measured by state nonfarm wages and salaries, had its severest impact on Michigan, Alaska and Indiana, according to the Commerce Department's Bureau of Economic Analysis. It was least felt in Montana, Idaho and Maryland.

The cycle started with a fall in the gross national product in the first quarter of 1980 and a trough in the second quarter. This was followed by a year-long expansion continuing through the third quarter of 1981, after which the GNP took a sharp turn downward in the 1981 fourth quarter.

Generally, construction and the manufacture of durable goods were the most sensitive industries; government and private service companies were the least sensitive.

In Michigan and Indiana the auto and primary metals industries were cited as especially sensitive; seasonal and other random factors probably caused the downturn in Alaska.

The Tax Cut That Really Isn't

Although politicians and the news media persist in describing the Reagan personal tax cuts as massive, in reality they seem to be neither massive nor cuts. Think of them as the cancellation of a massive tax increase.

This increase is primarily the result of bracket creep, the process by which cost-of-living-induced pay increases push taxpayers into higher tax brackets. Added to bracket creep, and also feeding off inflation because the Social Security wage base is indexed, is the rise in Social Security levies.

So those who want to reduce the tax "cut" are actually arguing for a tax increase. That fact has implications for the development of public policy. What would be the economic effect of a big tax increase? And conversely, if the tax cuts leave most people close to where they started, where is the supply-side incentive to work, save and invest?

The accompanying table—condensed from *Business Review*, a publication of the Federal Reserve Bank of Philadelphia—shows what the Reagan cuts in marginal federal tax rates (income and Social Security combined) do to seven levels of adjusted gross income. Inflation was assumed to run 8.8 percent for 1981, 8.7 percent for 1982 and 7.8 percent for 1983. If actual inflation rates are lower, the effective size of the tax cut will be larger.

Marginal Tax Rates After Reagan Tax Cut

Household of Four Filing Jointly

Adjusted Gross Income (In 1978 dollars)	1980	1981	1982	1983
[Using standard deduction]				
$13,000	24%	27%	26%	24%
15,000	27	27	29	27
17,000	30	30	29	30
19,000	30	34	32	32
[Itemizing deductions]				
$22,500	24%	34%	32%	32%
27,500	32	32	33	30
40,000	43	42	39	40

Tax rates (federal income and Social Security taxes combined) are rounded to the nearest percent. Most lower-income taxpayers take the standard deduction, and most higher-income taxpayers itemize. The table reflects this pattern.

CORPORATIONS

Firms Blamed For Employe Abuses

Do you feel powerless about employe theft and absenteeism and consider them simply costs of doing business? Your attitude may be part of the problem.

Employe theft, extended breaks and unwarranted sick leave all "tend to be more a symptom of the job setting than of societal ills," say Profs. Richard C. Hollinger of Purdue University and John P. Clark of the University of Minnesota. They studied employe theft and absenteeism at 47 corporations—hospitals, electronics manufacturing firms and department stores—in three metropolitan areas.

The person who most influences the degree of abuses on the job is the immediate supervisor. An unfair or hypocritical supervisor, Hollinger says, "sets a negative moral tone." Employes will steal or take unwarranted leave, he says, because they feel treated unfairly and want to get back at the boss.

The study also found that theft and other abuses are more likely where employes question the ethical standards of the company itself.

Hollinger and Clark suggest that employers issue a clear set of rules so employes understand that transgressions will not be tolerated, make sure they do not have a different set of ethics for higher-level employes, and not hide the fact that an employe was fired for theft or other abuse.

Office Bugs Fall Prey to Scanner

Whatever is bugging industry in this country today can be quickly and easily resolved for a mere $18,000.

So promises Harry A. Augenblick, president of Microlab/FXR in Livingston, N.J. His firm sells SuperScout, a broomlike scanning device guaranteed to find any electronic bug planted in an office.

"The bugging of industry has become so commonplace," he says, "that we've found a ready and waiting audience for SuperScout. In fact, we're so certain that the top U.S. corporations are bugged that we'll give a full refund if a SuperScout user doesn't find one on the premises within the first 60 days of use."

Augenblick says so far no refunds have been requested even though SuperScout has been sold to a "fair number" of energy, oil, aerospace and banking companies. "Of course," he acknowledges, "some businesses may not want to talk about bugs being sought, or found, in their offices."

He estimates the typical major company is a victim of "10 or more illegal plants [bugs] each year. The devices nowadays are so small

This man is equipped to find what's bugging you.

and subtle—a spike inserted in upholstery, a picture holder hook—that some people can stare at one and not recognize what it is."

Snoopers find many uses: listening in on marketing plans, on labor negotiations, on employes and on managers.

Housed in a lightweight portable carrying case, SuperScout sends out an electronic signal whenever an electronic bug is near, whether or not it is operating and regardless of its frequency.

Homegrown Growth Is Good Strategy

Companies need not search outside familiar boundaries to find growth opportunities; instead, sticking close to home, they should give increasing attention to innovation.

That's advice from Arthur D. Little, the research and management consulting firm based in Cambridge, Mass. "It is possible to find rewarding growth and greater profitability within mature industries, which on the whole account for a large share of profits recorded by U.S. industry," says Roger W. Hearne, who coordinates ADL's strategic counseling projects in San Francisco. To do so, he says, companies must make managerial and compensation systems encourage and reward risk-taking—necessary ingredients for long-term growth.

ADL says once opportunities have been identified, firms must develop market strategies that nail down gains before the competition can react.

The chief executive of a major California-based conglomerate agrees: "Innovative opportunities surround businesses in every field; the challenge is recognizing them and reacting quickly enough to take advantage of them."

Predicts ADL: "Over the next 10 years, large companies will be hard-pressed to achieve growth if they fail to undertake innovative programs that will foster rejuvenation of their business."

American R&D On the Rise

Increased defense spending, coupled with a spate of federal tax credits for business, could push U.S. expenditures for research and development to nearly $78 billion in 1982. Industry's share could surpass the federal government's for the first time.

That outlook is based upon a study by the Columbus, Ohio, division of Battelle Memorial Institute, a research and consulting firm. If Battelle's forecast holds true, total R&D expenditures this year will exceed last year's by 12.4 percent.

"Trends in real R&D are continuing the upward movement established over much of the past decade," says Jules J. Duga, a Battelle research scientist. Since 1973, real R&D has increased at an average annual rate of 3.24 percent. The figure is expected to be 3.25 percent through the decade.

Industrial funding in 1982 is expected to reach $37.7 billion, or 48.6 percent of the nation's R&D total; this would be 11.4 percent higher than in 1981. Decreases in last year's net profits could cause industry's share to fall short of projections, but the impact would generally be confined to new R&D only.

Slightly lower will be the federal government's share, about $37 billion or 47.7 percent of total expenditures; this would be 11.4 percent more than in 1981. Academic and other nonprofit institutions are expected to fund the remaining 3.7 percent, or $2.9 billion.

SMALL BUSINESS

Target for Reform: Pension Regulation

Easing pension plan regulation is among the Reagan administration's immediate goals for small business.

Vice President George Bush, who chairs the President's Task Force on Regulatory Relief, says the Employee Retirement Income Security Act will get a particularly close review. "The ERISA regulatory program," he says, "is so complex and burdensome that it is driving small businesses out of the pension plan area, depriving many workers of an important fringe benefit." He says the administration will postpone new rules, reduce paper work and make it easier for small businesses to comply with ERISA without reducing IRS's ability to enforce applicable tax laws.

How Big Is A Small Firm?

The Small Business Administration has been trying to revise its hodgepodge of business size standards since 1978, but new ones are still more than a year away.

Size standards set the cutoff points for participation in SBA programs and serve as guidelines for assistance—including government contract set-asides—from other federal agencies.

Andrew Canellas, head of the SBA size standards office, says wholesale turnover among top agency decision makers and criticism of a March, 1980, revision have slowed what was already expected to be a lengthy rule-writing and public comment process. The 1980 version allowed firms in concentrated industries, such as petroleum refining, to have 2,500 employes and still qualify as small. In a competitive field like gasoline retailing or barbering, the top small business size was set at 15 full- or part-time workers.

To blunt objections, a 1982 version trims the higher size standards and boosts the lower ones. "The agency is in a no-win situation," Canellas explains. "If you set an industry threshold at 500, someone at 525 will be unhappy; if you set it at 20, the firm at 25 will fume."

Corporate Liaison Runs Interference

A small business can be frustrated by the maze of telephone operators, purchasing managers, accounts payable offices and red tape sometimes encountered in a big corporate setting. Yet small firms are often large companies' best customers and most reliable vendors.

To aid communication, one giant firm, Control Data (60,000 employes and 1981 sales of $4.2 billion in computer and financial services) has set up what may be the first corporate small business advocate office.

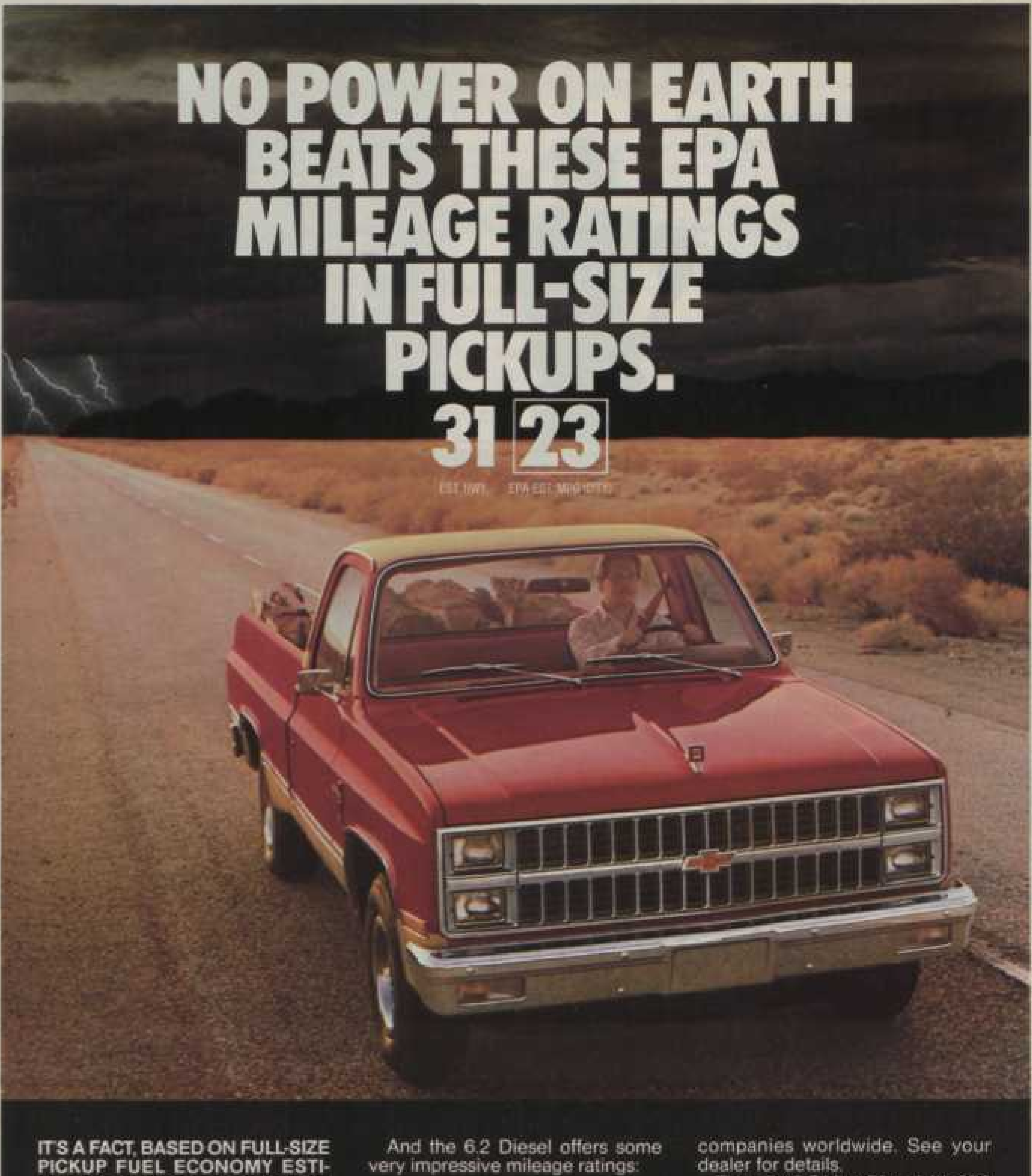
"Whether a small business wishes to bid on a job, be paid for one, contact a specific department or simply locate an address, the advocate will find the answer," says James R. Morris, the program administrator. A president of a small business isn't likely to be put through to Control Data's president, but at least the caller will get a representative who will work on his behalf, Morris adds.

INTERNATIONAL

Right vs. Left —No, Not Politics

It's all in the head ... the left side, actually.

The Japanese, who are churning out those little cars and electronic goods,



IT'S A FACT, BASED ON FULL-SIZE PICKUP FUEL ECONOMY ESTIMATES REPORTED BY THE EPA. AND THE NEW 6.2 LITER DIESEL MAKES IT POSSIBLE. It's available in full-size Chevy Pickups, Suburbans and 4WD Blazers, and it's designed specifically for trucks. This optional V8 is built to deliver the kind of raw power you need, without sacrificing economy. In fact, the new 6.2 Liter Diesel is so powerful that a properly equipped full-size '82 Diesel Pickup or Suburban can haul as much as 13,500 lbs., including itself, trailer, passengers, cargo and equipment.

And the 6.2 Diesel offers some very impressive mileage ratings:

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2WD	31	23	30	20	–	–
4WD	29	22	26	18	28	20

Use estimated MPG for comparisons. Your mileage may differ depending on speed, distance, weather. Mileage will be less in heavy city traffic. Actual highway mileage lower. Some Chevrolet trucks are equipped with engines produced by other GM divisions, subsidiaries, or affiliated companies worldwide. See your dealer for details.

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CHEVY TRUCKS

CHEVY IS THE POWER IN TRUCKS.

PHOTO: EIJI MIYAZAWA—BLACK STAR

Testing shows differences in American, Japanese brains.

have it. The Americans, who are trying to compete, don't have it. It's that simple, says *Brain & Strategy* magazine editor Dudley Lynch.

"The Japanese brain appears to make much heavier use of the left sphere than the brains of any other nationality tested," he says. The left sphere, he explains, is heavily involved in linear, sequential processing and thus with language and speech. More innovative, but less gifted analytically, is the right side of the brain, he says.

"Because both logical and intuitive processing appears to occur in the Japanese left brain," Lynch says, "the Japanese may very possibly enjoy naturally the kind of 'whole-brained' thinking abilities many U.S. educators and management theorists have been recommending."

So what does that portend for American business? Lynch advises U.S. companies to concentrate on "out-innovating" the Japanese by taking advantage of the Americans' collective right sphere superiority.

So use your head—the right side.

Private-Public Duo Would Aid Exports

U.S. exports need expanding and promoting, and part of the answer may be a private corporation working with government agencies.

At least that idea is being studied by the National Chamber Foundation.

According to Frank A. Weil, former assistant secretary of Commerce and in charge of the study, "An analysis will be conducted to determine which federal export programs could be moved in whole or in part under a private management team."

Being private, the corporation could be free from federal budget and civil service constraints. Such a corporation, Weil and others believe, also could encourage entrepreneurs who now are not in the foreign markets.

Under study is whether such a corporation would be a quasi-private enterprise involving government or a profit organization totally within the private sector.

Robert T. Campion, NCF chairman and chairman of Lear Siegler, Inc., says, "Business needs to identify specific ways it can carry out on its own those activities now funded and operated by the federal government."

The study will examine private sector alternatives to the Export-Import Bank, the Overseas Private Investment Corporation and the Trade and Development Program under the auspices of the International Development Cooperation Agency.

To Campion, "privatizing trade promotion activities is consistent with the NCF's view that a public-private partnership is needed to strengthen U.S. exports."

PERSONAL

Leadership Depends On Communicating

PHOTO: CONTROL DATA

What does it take to get to the top? Good communications skills. Modern classes show how to use the hardware, too.

You may be a brilliant technician, but if you can't communicate, you won't succeed.

That's the word from a survey of 1,158 newly promoted chairmen, presidents and vice presidents in a variety of businesses. Herbert Hildebrandt and three colleagues at the University of Michigan graduate school of business asked, "Which courses best prepare one for business leadership?"

Business communication was cited as very important by 71.4 percent of the executives—more often than finance (64.7 percent), accounting (57.9 percent), business policy and planning (47.7 percent) and marketing (38.1 percent).

Preparing budding executives to be effective in presenting information and persuading others is receiving greater emphasis at business schools, Hildebrandt believes, and courses may become mandatory. "Students themselves sense the need and courses are often oversubscribed," he says.

Today's classes take a practical approach, offering training in preparing reports, making presentations and running meetings.

Employes Rate Their Bosses

You probably think you're a good manager, backing the troops in tough situations, giving them recognition, setting a good example, listening to their ideas.

Your troops probably disagree.

Misperceptions are what Gary Schwendiman, dean of the University of Nebraska business school, found when he administered his Individual Assessment Profile to 350 managers and 1,600 subordinates.

The Individual Assessment Profile consists of questionnaires that offer workers the chance to rate the boss—anonymously—on communication, leadership and motivation of subordinates, delegation and other managerial skills. The boss rates himself, and then the results are compared.

Once he knows where he is perceived as ineffective, the manager can set strategy to correct the problem. A follow-up questionnaire measures progress.

"Think of the productivity you could get out of managers if they knew they had the support of their people, if they weren't working at cross purposes," says Natalie Clark, president of Individual Assessment Associates in Lincoln, which markets the program.

Being rated is a positive experience, Clark says. People tend to be honest, so their assessments are valuable.

And there's some good news for the boss: The study found that subordinates tend to support his objectives more than he thinks.

GOVERNMENT

Consumer Laws Can Be Detrimental

Citizen lobby groups for years have argued for federal legislation to protect consumers, particularly in energy matters. Now Congress is taking a second look at some laws on the books, thinking that consumers may be better off without them.

The proposed Energy Consumer Regulatory Reform Act of 1982, sponsored by Rep. Carlos J. Moorhead (R-

Calif.), would repeal seven separate energy statutes that Moorhead says "only contribute to the regulatory morass and add to the financial burden on consumers and small businesses."

Proponents say the Moorhead legislation would save consumers and small firms nearly $200 million between fiscal years 1982 and 1984.

One of the most onerous statutes on the books, says Moorhead, is Building Energy Performance Standards, which adds between $3,000 and $4,000 to the price of a new home.

BEPS was part of the wave of federal energy-efficiency legislation that followed the 1973-74 oil embargo. Guidelines established efficiency standards for buildings, but builders were left on their own to find ways to achieve that level of performance.

"In theory, it was a good idea, but implementing BEPS was a difficult and expensive chore," says Sital Daryanani, chief of design for Syska & Hennessy, an engineering consulting firm that helped develop the legislation.

"In the long run," he admits, "it only adds to building costs, which, of course, are passed on to buyers."

PHOTO: NB/WR

Rep. Carlos J. Moorhead: Ax the energy red tape.

Europe Shrinks Its Social Security

U.S. policymakers wrestling with Social Security costs may be able to pick up ideas from Western Europe.

The Europeans have been willing to modify benefits and cost-of-living adjustments to help resolve short-term financing difficulties.

Germany and Italy put a temporary cap on COLA increases; Belgium adopted a two-tier increase, part indexed and part flat rate; and the Netherlands simply declined to pay the full amount specified by the indexing formula.

Britain has a two-tier setup intended to shift some of the load from a pay-as-you-go system to fully funded private pensions.

All workers and employers participate in the first tier, called the basic component pension. As in the U.S., the tax is divided between employes and employers, although the former pay 6.5 percent and the latter 12 percent.

The second tier, called the additional component pension, is optional under certain conditions. If an employer provides a pension offering benefits at least equal to those available under the top tier of the public system, the employer may "contract out"—take his employes out of this part of the system.

For those remaining in the second tier, the tax on covered earnings is 4 percent for employes and 7.5 percent for employers (on top of the first-tier tax). In contracting out cases, this added tax is 1.5 percent on employes and 3 percent on employers.

Individual employes may not opt out on their own, and employers may not discriminate among employes. □

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Sketch Out Your 1982 Strategy

By John Hanly Adams

While the trauma of making out your 1981 tax return is fresh in your mind, start those records to make the task easier and more profitable for your 1982 return.

Congress endlessly tinkers with the tax laws. The Internal Revenue Service tirelessly rewrites the regulations. The courts grind out often-contradictory decisions. And now the states are scrambling to revamp their laws, getting away from rates and rules tied to the federal system because the Economic Recovery Tax Act of 1981 cut federal rates so deeply.

The upshot: You can stand there quietly and get milked by both the feds and your state, or you can fight back by learning the rules, keeping records and claiming all lawful deductions. It's most likely too late to do anything about 1981, but 1982 is a clean slate.

Child Support

Divorced parents who are delinquent in their child support payments may not see their tax refunds. IRS has been authorized to pay the refund of someone who's in arrears to the other parent, if he or she requests.

For further information, write to Susan K. Thompson, IRS, Attention CC:LR:T, Washington, D.C. 20224; or call (202) 566-3294.

Expensing vs. Depreciation

One choice resulting from the 1981 tax act is whether to expense business equipment—a car, a truck, a computer used entirely or partly in business—or use instead the act's liberal rapid depreciation.

With expensing you deduct the cost (or that part attributable to your business usage) from your business income in the year of purchase, just like any other business expense—up to a new limit of $5,000. If the equipment costs more than $5,000, you can claim depreciation allowances on the extra cost over the equipment's business life span.

The expensing deduction is a fast capital-recovery aid for small businesses. But you lose another benefit—the 10 percent investment tax credit—to the extent you claim the expensing deduction. Your tax adviser can help you figure out which method yields the bigger tax saving. For many, expensing is the better deal.

Fraud Penalties

At tax-paying time it may be worth a moment to contemplate the penalty for intentional fraud in reporting income, deductions or other details on a tax return.

For civil fraud IRS collects a penalty of 50 percent of the additional tax due plus 20 percent interest on the deficiency. In the year ended June 30, 1981, IRS levied $94 million in civil fraud penalties on 4,954 taxpayers—a tiny group out of the more than 90 million taxpayers. Many times that number, however, settled out of court when IRS threatened prosecution.

For criminal tax evasion you pay the 50 percent penalty plus a prison term of up to five years or a fine of up to $10,000—or both—for each count on which you are convicted.

The normal statute of limitations for assessing additional tax is three years. But there is no limitation when fraud is involved in an underpayment of tax.

Reduce Withholding

By holding down tax withheld on your pay, you can keep more in an interest-bearing bank account or a money-market fund. Some people prefer to let the government overwithhold to ensure a fat refund when they file their returns. But if you want to minimize the government's use of your money, take the following additional exemptions on your W-4 withholding allowance certificate: Individual Retirement Account contributions, deduction for a two-paycheck married couple (lower-paid spouse should claim it), estimated losses from a business (on Schedule C), employe business expenses and moving expenses.

Untaxed Dividends, Interest

Changes in the tax treatment of dividends and interest have many people confused, with reason.

- On 1981 returns you can exclude from taxable income up to $200 ($400 on a joint return) of dividends and interest paid by banks and other institutions. (Interest an individual paid to you is taxable.) IRS says many taxpayers failed to claim this benefit on their 1981 returns. You can file an amended return, Form 1040X, to rectify the error.
- On 1982 returns you will be able to exclude $100 ($200 on a joint return) of dividends only. Interest will not be excludable for 1982—except where specifically exempt—unless Congress changes the law again.

Sales Tax Deductions

Many people are misled by some wording in *Your Federal Income Tax*, the general explanation of the tax law published by IRS. On page 84 it states: "The only sales taxes you may add to the table amount [the standard allowances per state] are those you paid if you bought the following items . . . [a] home (including mobile or prefabricated) or materials to build a new home if . . . your sales receipt or contract shows how much tax you paid."

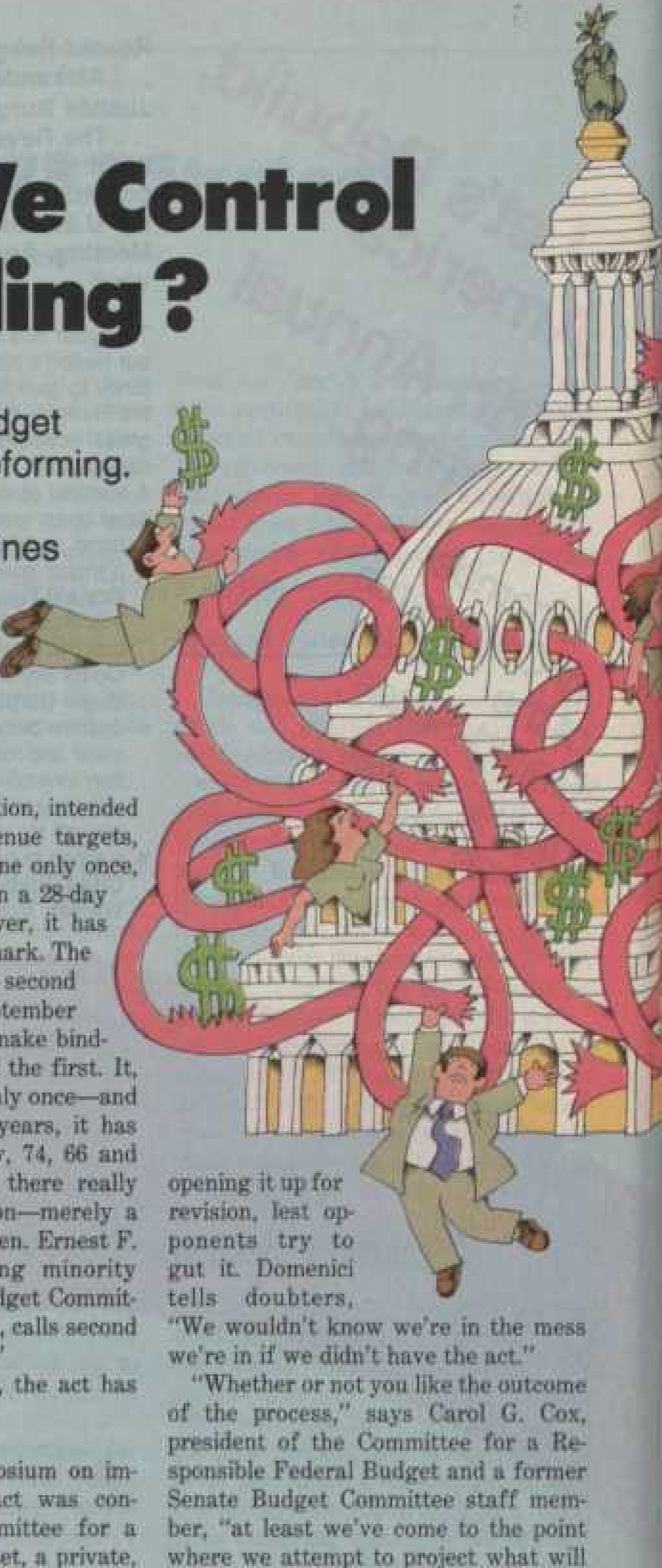
The catch is that you get to deduct the sales tax only if you acted as your own contractor, buying and paying for the materials yourself. A U.S. Tax Court decision in a Michigan case just reaffirmed this rule by denying a homeowner a $1,268 sales tax deduction because the tax was paid by the contractor, not the homeowner. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific and individual cases.*

Can We Control Spending?

The reformed budget process needs reforming. More important, congressional spines need stiffening.

By Barry Crickmer



EACH YEAR, the federal government takes more, spends more and borrows more than it did the year before.

Two recent developments were expected to halt that trend. In 1974 Congress adopted a new procedure for making budget decisions. In 1980 the American people elected a President and many legislators pledged to lower federal spending, taxes and deficits. But the growth continues.

The Congressional Budget and Impoundment Control Act of 1974 can be a dramatically effective tool when wielded by willing hands. President Reagan and his allies on Capitol Hill used it last spring to trim $35 billion from the 1982 budget. But the act provides only the means to control spending; it does not provide the will.

Before the act, Congress did not consider the budget as a whole. Some committees authorized programs, others appropriated money and still others set tax rates. The act created House and Senate budget committees to decide on totals for both income and outgo.

These committees set floors for revenue and ceilings for spending. When ratified by Congress, the limits become binding on all other committees.

The new budget process was tried informally for the fiscal 1976 budget and took effect legally the next year. How well is it working? Since fiscal 1975, the amount of the gross national product claimed by the federal government has increased from 22.5 percent to 24.2 percent, federal outlays (including off-budget spending activities, such as agency lending) have risen from $332 billion to $745 billion, and the national debt has grown from $544 billion to $1.134 trillion. Even after adjusting the figures for inflation, it is difficult to find evidence of progress.

Also disturbing are signs that the budget process itself may be breaking down. At no time since the act became law have all of each year's 13 appropriations bills been enacted within seven days of Labor Day, the prescribed deadline. Only once, for fiscal 1977, were all ready on October 1, the start of the new fiscal year. For fiscal 1982 not one appropriations bill met either deadline. In fact, two were still pending halfway through the year. (This problem did not develop with the 1974 budget act, however.)

The first budget resolution, intended to set spending and revenue targets, has met its May 15 deadline only once, for fiscal 1977. Aside from a 28-day lag for fiscal 1981, however, it has always been close to the mark. The real problem has been the second budget resolution, due September 15, which is supposed to make binding the revised targets of the first. It, too, has come in on time only once—and for the last three fiscal years, it has been delayed, respectively, 74, 66 and 86 days. For fiscal 1982 there really wasn't a second resolution—merely a restatement of the first. Sen. Ernest F. Hollings (D-S.C.), ranking minority member of the Senate Budget Committee and a former chairman, calls second resolutions "a total sham."

Despite those problems, the act has many defenders.

LAST JANUARY, a symposium on improving the budget act was convened by the Committee for a Responsible Federal Budget, a private, nonprofit organization whose board includes former members of Congress, congressional staff from both parties and business community representatives. Significantly, of the 20 speakers on the program—among them such Washington heavyweights as House Majority Leader Jim Wright (D-Tex.) and Senate Budget Committee Chairman Pete V. Domenici (R-N.M.)—not one advocated scrapping the budget act.

In fact, most seemed to fear even opening it up for revision, lest opponents try to gut it. Domenici tells doubters, "We wouldn't know we're in the mess we're in if we didn't have the act."

"Whether or not you like the outcome of the process," says Carol G. Cox, president of the Committee for a Responsible Federal Budget and a former Senate Budget Committee staff member, "at least we've come to the point where we attempt to project what will be the aggregate effect of our decisions and whether that aggregate is appropriate. That's pretty significant."

James A. Clifton, director of inflation studies for the U.S. Chamber of Commerce, cites another important advantage. "The budget act forces each member of Congress to vote at least once on the budget as a whole," he points out. "That way, their constituents are able to hold them accountable. It used to be difficult for a voter to tell

ILLUSTRATION: JACK LEFKOWITZ

whether his representatives were big spenders or big economizers."

But even friends of the act acknowledge a need for reform. If its procedures cannot be streamlined, Congress might simply ignore it.

There is no shortage of reform proposals—21 were introduced in the Senate alone last year.

A HIGH PRIORITY on nearly all lists is to make the first resolution binding and the second optional. This proposal has strong support on the budget committees. It is also endorsed by the Committee for a Responsible Federal Budget, the Chamber and Congressional Budget Office Director Alice M. Rivlin.

Legislators who have wrestled with the process say there is simply not enough time for Congress to complete everything required between the presentation of the President's budget in January and the mandatory second resolution in mid-September. Hence the slippage in the second resolution's deadline.

At the January symposium, the House Budget Committee's ranking minority member, Delbert L. Latta (R-Ohio), said "it is virtually impossible for a newly organized legislative committee to properly consider the cost of the dozens of programs ... under its jurisdiction and to report on the same to the Budget Committee within the time frame provided."

The first resolution could be made binding without changing the act. "What Section 310 of the act requires," Cox explains, "is that on or before September 15 Congress reaffirm or revise the decisions made in the first resolution. It doesn't say Congress has to wait until the fall to do it. So there's nothing to keep Congress from doing that in the first resolution."

Congress would issue reconciliation instructions along with the first resolution, which is what has happened the last two years anyway. (Reconciliation instructions direct the authorizing, appropriating and tax-writing committees to reconcile the laws under their jurisdiction with the budget limits. These changes are then grouped together into one reconciliation bill.)

Reconciliation was seen by the drafters of the budget act as sort of an emergency procedure to be used only occasionally. But recent experience has convinced reformers that its use should be mandatory. "Reconciliation is an extraordinarily powerful enforcement tool," says the Chamber's Clifton. "By wrapping all the budget cuts together, you force people to vote for budget restraint, rather than trying to force them to vote against spending on individual pet projects."

There is a possibility that the May 15 deadline for the first resolution will be changed—Latta favors delaying it at least until July 1 to give the budget committees more time to review programs. Others want to advance the date to leave more time for reconciliation and appropriations bills. Another proposal with solid support is multiyear budgeting. The Congressional Budget Office already makes five-year projections, which the budget committees increasingly have been using. The Chamber suggests including the outyears (those beyond the next fiscal year) in budget resolutions and reconciliation.

Something also needs to be done about the appropriations process, which is probably the biggest single threat to rational congressional consideration of the budget. The appropriations committees are technically bound by the limits established in a budget resolution.

HOWEVER, appropriations bills are still handled one at a time: The budget is not complete until all 13 bills have been adopted by each house and signed by the President. Consequently, appropriations subcommittees can stall if they don't like the instructions they have received in the budget resolutions. If they stall past the end of the fiscal year, the funds they control are provided temporarily under a continuing resolution, or part of the government shuts down. Continuing resolutions are one way to postpone a budget cut, since they tend to extend funding at previous levels.

Even without deliberately stalling, the appropriations committees are almost certain to have other opportunities to avoid budget act limits. That's because a budget resolution does not actually cap spending. Rather, it effectively prohibits adoption of new legislation that would breach the limits. Since the budget represents, at best, an informed guess about future economic conditions, the limits are often breached in other ways.

An increase of one percentage point in the unemployment rate, for example, can cost the government $25 billion in added spending and lost revenue. Changes in GNP growth, the inflation rate and interest rates also have major budget impacts. Such developments require supplemental appropriations.

One method suggested for keeping the appropriations committees on schedule and on target: An omnibus bill that would group all the separate appropriations bills for a single, open congressional vote. None would take effect until all were ready. This would make it easier to focus public pressure on the appropriations process. Voters could see clearly what was going on and judge their legislators accordingly.

Among other reform proposals: Require annual appropriations for entitlement programs like Social Security and food stamps, adjust the debt ceiling in the budget resolution, establish a "credit budget" to control the off-bud-

get agencies and treat "tax expenditures" as appropriations.

Two proposals, both endorsed by the Chamber, affect executive-legislative interaction. One is to give the President a line-item veto power over appropriations bills so he would no longer have to accept all of a bill or none of it. (This would probably require a constitutional amendment.) The other would make it easier for a President to withhold appropriated funds. The act now provides that a President may delay spending no more than 45 days after asking Congress to rescind an appropriation, unless Congress approves his request. The proposed change: Let the President's decision stand unless Congress explicitly rejects it.

Friends of the 1974 budget act walk a tightrope between liberals who regard it as too confining and conservatives who think it so ineffectual that only a constitutional spending limit will suffice. The budget committees also have to contend with the jealousy of the appropriations committees—cocks of the walk before the new budget process—and with occasional hurt feelings among other committees. Add to these strains the effects of normal rivalry between the two major parties, and it's a wonder the act has lasted this long.

IT MIGHT NOT LAST much longer. "By next year there may not be a process," warns the Chamber's Clifton. He foresees a move by congressional leaders to attach the fiscal 1983 budget to a bill raising the debt ceiling—a strategy that would bypass the budget committees. The purpose: To force the President to sign a package of tax and spending measures he did not like in order to prevent the federal government from grinding to a halt sometime this spring, when the present ceiling is reached.

Another sign of trouble is the distaste shown by the authorizing committees for making decisions on the President's budget recommendations. Many are unwilling to make further cuts in their programs, and several seem unable to agree on anything. The Senate Committee on Labor and Human Resources tossed the hot potato to the budget committee early last month. "It has not been possible to reach an agreement on spending levels," explained Chairman Orrin G. Hatch (R-Utah). "It is therefore necessary to defer judgment to the Senate Budget Committee."

If Congress does abandon the budget act, the stated reason will undoubtedly be that it has failed to control spending. But the real threat to the act may be that it shows too clearly that *Congress* has failed to control spending.

As Latta told the January symposium: "Spending would probably have been higher and deficits greater had the budget act not been in place. This alone is sufficient reason to keep the process and to try to improve upon it in order to breathe some fiscal sanity into our system before it is too late." □

Budget Control Through the Years

PHOTO: DENNIS BRACK—BLACK STAR

Chairman James Jones (center) and House Budget Committee members Jim Wright (left) and Delbert Latta grill budget director David Stockman.

Until 1921 federal departments and agencies went to congressional committees to seek funds. Occasionally, they told the President what they wanted, as a courtesy.

When the increased spending of World War I strained this informal system, the Bureau of the Budget was born. Initially, it belonged to the Treasury. But President Franklin D. Roosevelt wanted a budget staff that answered to him, so Congress in 1939 created the Executive Office of the President and moved the Budget Bureau there. The bureau's name was changed in 1970 to the Office of Management and Budget.

Today, OMB is one of the most powerful institutions in Washington. It prepares the President's budget, hears appeals from federal officials, reviews the executive branch's legislative proposals, monitors management in the executive branch and coordinates where needed.

Once, the House Ways and Means Committee and the Senate Finance Committee handled both revenue-raising and spending bills. Government growth during the Civil War led to creation of an appropriations committee in each house to deal with spending.

By the early 1970s it had become clear that the lack of a mechanism for Congress to consider income and outgo together was one cause of the wild growth of the federal budget. The solution: the Congressional Budget and Impoundment Control Act of 1974, which took effect in fiscal year 1977. The act established budget committees in the House and Senate and created the Congressional Budget Office to give Congress economic analysis.

Here's how the process is now supposed to work:

1. The President submits his budget in late January or early February.

2. By March 15, all legislative committees submit budget estimates to the budget committees.

3. Budget committees report out their first budget resolutions by April 15, setting spending and revenue targets in 19 categories.

4. Congress passes a first budget resolution no later than May 15.

5. By the first week after Labor Day, Congress completes all tax and spending authority bills.

6. The budget committees produce their second budget resolutions, which Congress must adopt by September 15. These are binding. Each directs congressional committees to reconcile laws under their jurisdiction with the budget limits. The budget committees group all the adjustments into a single reconciliation bill.

7. By September 25, Congress passes a reconciliation bill. The budget is now ready for the new fiscal year on October 1.

Uncle Sam's Unwelcomed Boarders


PHOTO: ALAN CLIFTON—BLACK STAR

Immigration reform is an idea whose time seems to have come. But in what form will it come? That's still an open question.

By Carole Feldman

The Haitian boat people, some say, are political refugees and should therefore not be deported as illegal aliens.

A SOUR ECONOMY and vivid memories of the Cuban boat flotilla and the mass migration from Haiti make 1982 a prime year for immigration reform.

With hundreds of thousands of illegal aliens entering the country each year, business, labor unions, members of Congress and the Reagan administration agree that the United States has lost control of its borders.

But immigration reform is an emotional issue, and each special-interest group has its own ideas on how to curb the flow of illegal aliens.

Take, for example, President Ronald Reagan's proposal to fine employers for hiring illegal aliens. Business leaders say it would create a bureaucratic nightmare and be ineffective. But organized labor, concerned because unemployment rates are high, argues that the penalties wouldn't be harsh enough.

Or consider Reagan's plan to allow Mexicans to take temporary jobs—"guest workers" they would be called—in the United States. Leaders of U.S. Hispanic groups question the justification for such a program because of high unemployment, while business groups contend that the recent influx of illegal immigrants began after a similar but much larger program, the bracero program, was disbanded in 1964.

The President's guest-worker program, which would have a two-year trial, would allow 50,000 Mexicans to work in the U.S. for nine to 12 months each. Under the old bracero program, hundreds of thousands came in.

Nevertheless, support on Capitol Hill for some kind of action is growing. "There's a general consensus that illegal immigration is a serious economic and political problem and that something has to be done," says one congressional staff member.

In 1980 legal immigrants arriving in the U.S. exceeded 800,000. The Immigration and Naturalization Service is still compiling figures for 1981.

Although no one knows the exact number of illegal aliens in the U.S., the Census Bureau puts the figure at 3.5 million to 6 million. Many illegals are deported—in recent years between 800,000 and 1.1 million annually—and 30 percent have been deported once before during the same year.

Ninety percent of those deported are Mexicans. Typically, when caught, they admit their illegal status. But that doesn't mean they aren't determined immigrants.

Most of them come into California and Texas from states in northern Mexico. To make re-entry difficult for those caught in California, the INS ships them by sea to southwestern Mexico, an area rich in beach resorts. "The illegals get a free vacation trip," says one authority. "Then they come back in."

Many illegals have been a benefit to the U.S. economy. "There is no ques-

CAROLE FELDMAN *is a Washington journalist.*

tion that they have contributed to productivity and have helped keep costs down, particularly in agriculture," says Doris M. Meissner, acting deputy commissioner of the INS.

Illegals enter a wide range of occupations. Some doctors whose tourist visas have expired—making them illegal aliens—have been found on hospital staffs. Illegals have been discovered working as cooks at West Point, typists on Capitol Hill, guards at a Maryland prison and janitors at the INS itself.

PHOTO: SCOTT NEWTON—PICTURE GROUP

More police officers guard the U.S. Capitol and adjacent congressional buildings than patrol our borders at any one time.

Reagan would let 50,000 Mexicans cross the border legally and fill jobs, but labor groups worry about unemployment.

PHOTO: SHELLY KATZ—BLACK STAR

In announcing his immigration reform proposals last July, Reagan acknowledged that "more than any other country, our strength comes from our own immigrant heritage and our capacity to welcome those from other lands." But he added, "No free and prosperous nation can by itself accommodate all those who seek a better life or flee persecution. We must share this responsibility with other countries."

Reagan pledged to preserve the U.S. "tradition of accepting foreigners" but said future immigration should occur "in a controlled and orderly fashion."

Under the President's plan, based in part on recommendations of a bipartisan Carter commission and a Reagan administration task force, illegal aliens living in the U.S. as of Jan. 1, 1980, would be granted temporary residency.

Although these aliens would have fewer rights than most U.S. residents and would be barred from bringing their families, after 10 years they would be permitted to apply for permanent residency if they passed an English proficiency test.

Reagan is also calling for authority for the Coast Guard to intercept Haitians headed for the U.S. by boat. He is recommending a $525 million INS budget for fiscal year 1983, up from $429 million in 1982 and $370 million in 1981.

Employers would bear the burden of weeding out illegal aliens. To avoid civil penalties ranging from $500 to $1,000 for each illegal alien they hire, employers with four or more workers would have to see two pieces of identification verifying every job applicant's citizenship or residency status. They would have to notify the government that they had done so and keep records.

Reagan rejected a suggestion by his task force to create a counterfeit-resistant national identification card for all U.S. citizens and legal residents that would help employers spot illegal aliens. The administration contends such a card would be too expensive, costing between $800 million and $2 billion to create and distribute.

However, Sen. Alan K. Simpson (R-Wyo.), who as chairman of the Senate Judiciary Committee's subcommittee on immigration will have a lot to say about the reform bill, favors just the the type of ID system Reagan rejected.

Simpson and Rep. Romano L. Mazzoli (D-Ky.), head of the House Judiciary Committee's Immigration Subcommittee, have introduced their own bill containing what Simpson calls the three-legged stool of immigration reform—tighter border patrol, employer sanctions and a national identification system. His position: "Either we get all three of those things or we get nothing."

Their bill rejects Reagan's guest-worker program and proposes a more liberal amnesty program. Legal immigration would be limited to 425,000 people a year.

Despite Mazzoli's assurances that legislation will take into account "the rights of all the people involved,, the business people, the undocumented people, the folks doing the enforcement," the lines are already being drawn.

U.S. Hispanic leaders and business groups are pledging to lobby vigorously against employer sanctions.

"Legislation calling for employer

sanctions and identification cards is going to be very discriminatory against Hispanics, particularly Mexican-Americans in the Southwest," says Antonia Hernandez, Washington director of the Mexican-American Legal Defense and Educational Fund. Employers, she says, will "not want to take the risk of hiring Hispanics."

The U.S. Chamber of Commerce questions the rationale for shifting to employers the responsibility of uncovering illegal aliens. It disputes arguments that undocumented workers are depriving Americans of jobs.

"Public demand for congressional action and for strict immigration law enforcement rises with the unemployment rate," said Robert T. Thompson, chairman of the Chamber's Labor Relations Committee, in Senate committee testimony last September. "Yet an employer-sanctions law would not have stopped the Indo-Chinese refugees or the Cuban boat flotilla. They came as political refugees, not to seek a job."

CHRISTOPHER LUIS, a labor law attorney with the Chamber, contends that with such sanctions, "the focus of enforcement would shift from keeping illegal aliens out of the country to punishing employers."

Groups opposing employer sanctions have found a congressional ally in Sen. Harrison Schmitt (R-N.M.), who says the proposal would create "a real economic problem" in the Southwest.

Schmitt maintains that employer sanctions would dry up the labor force at many small businesses and farms—jobs that he contends are not being sought by Americans. He says Reagan's guest-worker program would not be large enough to take up the slack.

"You have to allow a supply of labor that is commensurate with demand," he says. "Otherwise the illegal flow is going to start again."

Schmitt is proposing a larger guest-worker program. "The limit on the number of guest workers should be the number of jobs available," he says.

PHOTO: ANDREW SACKS—BLACK STAR

U.S. citizenship and a better life are the dreams of most illegal aliens. Reagan would grant many of them temporary residency and pave the way to eventual citizenship.

Although business recommends that a guest-worker program be explored, organized labor says the concept is the "most objectionable" of the administration's immigration proposals.

"A guest-worker program would worsen the nation's serious unemployment problem and undermine the already low wages in those industries and areas that would employ these temporary workers," said a resolution approved at the annual AFL-CIO convention last November. "Women and minorities would be most likely to suffer lost jobs and reduced income."

The administration acknowledges that union concerns may have some validity. "An important unanswered question is whether jobs illegal aliens take would be filled by Americans," says INS Deputy Commissioner Meissner. "The guest-worker program is a modest attempt to test out the proposition about whether we need foreign labor."

In the past, she says, most illegal immigrants worked on farms in the Southwest. But now they also work in the Northeast, Chicago, Boise, the Yakima Valley in Washington and elsewhere.

Meissner says undocumented workers are often successful in finding jobs because they are "willing to do work that many Americans are unwilling to do." It is a myth, she says, that many illegal aliens do not earn the minimum wage and are collecting welfare. As she puts it, "The use that illegal aliens make of benefit programs is minimal. Any contact with officialdom raises the specter of being discovered."

ILLEGALS GRANTED temporary residency under the Reagan plan would be ineligible for major federal benefit programs. They would, however, pay federal income and Social Security taxes. As a result, many civil rights groups are charging that second-class citizens would emerge from Reagan's plan.

Civil rights groups also say the administration's plan to stop the flow of refugees, such as those from Haiti and Cuba, by interdiction at sea would violate due-process protection. "In the case of Haitian immigrants, the results would be disastrous," the American Civil Liberties Union's Washington office said in its newsletter, *Civil Liberties Alert*. "With only superficial interviews conducted aboard ship by immigration personnel, in the presence of Haitian officials, no adequate impartiality could be possibly established. Many bona fide refugees would be returned to Haiti for persecution, imprisonment and even death."

The administration is asking Congress for authority to stop boats believed to be carrying illegal immigrants to the U.S. even though it believes it can do so without that approval. In fact, interdiction is already under way on a limited scale. Meissner defends the actions as a deterrent: A few Haitian boats have been stopped, she notes, and "the word is clearly out in Haiti that you could be intercepted."

Amid all the furor over immigration reform, one Reagan proposal is not controversial—his call for beefing up the U.S. Border Patrol.

The patrol is stretched thin, indeed. At one port in Florida, there are only three border guards, whose patrolling hours end at midnight. When the two men on the 8 a.m. shift come to work, they routinely find boats abandoned by illegals who landed in the night.

Says the Chamber's Thompson: "Even proponents of employer sanc-

tions admit that increasing the resources for our Border Patrol could stop or deter 90 to 95 percent of all attempts at illegal border crossings."

Indeed, the AFL-CIO's convention resolution says, "An effective immigration policy also requires increased resources for border control and interior enforcement."

But, says Meissner, "we're not looking to close the borders. They're obviously porous for a reason—positive economic interaction. We don't want a Berlin Wall."

Under current law, 270,000 immigrants a year may be given permanent residency visas, which allow them eventually to file for citizen's papers. (Immediate families of U.S. citizens are exempt from the ceiling.) But the administration is proposing to double the immigration limits on Mexicans and Canadians—to 40,000 each—a move that would increase legal immigration to 310,000 people annually. Limits are waived for refugees, such as those from Cuba, Vietnam and now Poland, who flee their countries because of political persecution.

After consulting congressional leaders, Reagan decided to allow 140,000 refugees to enter legally this year.

BUT THERE ARE other proposals. Roger Conner, executive director of the Federation for American Immigration Reform, advocates a strict ceiling on immigration with no exemption for family members. Sen. Walter D. Huddleston (D-Ky.) would set the ceiling at 350,000, which he calls a "reasonable figure."

Nevertheless, Simpson believes his proposals—including a national ID card—will be politically popular "as soon as they get explained properly. The American people don't make any differentiation between the various classes of immigrant. They just look at the numbers and say, 'What are you going to do about the numbers?' "

Despite the variety of proposals, there is widespread belief that a significant immigration reform bill will clear Congress this year. The subject "has been researched and thought about," says a staff member on the Senate committee. "Now, it's agreed, is the time for action."

This sense of urgency, however, does not mean that Congress will rubber-stamp all of the President's proposals. As Mazzoli puts it: Reagan will get something, but it may not be everything he wants. □

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Taking the Plunge In International Waters

Many a small firm that has gotten into exports might advise: "Come on in, the water's fine!" But proper preparation is essential.

By Bob Gatty

The year was 1976. Bill Hofmann Wholesale Nurseries in Hollywood, Fla., confronted a choice faced by countless other small and medium-size businesses across America. The company decided to launch into the export market.

To market abroad, Thomas N. Hofmann, president of the 50-year-old firm, had to

PHOTO: BILL HOFMANN WHOLESALE NURSERIES

The Hofmann nursery boasts of shipment sizes with a "Big Stuff" logo. Also big are its exports.

develop a way to acclimatize plants so they could survive transportation in the dark hold of a ship.

Today, 16 percent of the company's sales comes from the export of tropical greenery. Flushed with that success, the firm has set its sights on new markets once again—this time beyond the planet Earth.

It has reserved room on an upcoming space shuttle and plans to send plants into flight to help determine what adjustments will enable them to live in space. Why, you ask?

"Eventually we will have fully equipped work stations in space, and we will need to offer a natural environment for the people who work there," Hofmann predicts. "If I can acclimatize my plants for that, there will be one heck of a market."

LIKE MANY OF the some 28,500 other small and medium-size businesses that export their products, the nursery, which employs 35 people, sought the help of Commerce Department agents.

PHOTOS: PAUL FETTERS

Exports account for half the sales of BioDx. Its products must be shipped refrigerated (above). A crack traffic manager is "an absolute necessity," says Arthur Markovits, chairman (left).

"They were very helpful in developing contacts, going through the paper work requirements and guiding us with respect to credit and financing," Hofmann says. "They walked us through all of the steps."

Those 28,500 firms account for about $25 billion in annual export sales.

Hofmann's firm accumulated more than 40 years of experience before it tested international waters, but others have been navigating in them from the very beginning. A New Jersey company, BioDx, began to market overseas in 1976 when the company was founded. Today, Board Chairman Arthur Markovits says, 50 percent of BioDx's products are sold abroad.

The company manufactures products used in the diagnosis of chronic and infectious diseases. Its customers are hospitals, commercial testing laboratories and, in socialist countries, centralized testing labs.

Markovits says BioDx's major problems are those that any small business encounters when challenging larger firms, not the nontariff barriers many U.S. firms complain of.

"It's the David vs. Goliath thing," he says. "For example, in West Germany our distributors compete with major companies, and it takes an aggressive marketing and sales campaign to get a sizable market share. Finding good distributors is always a challenge."

Like the Hofmann nursery, BioDx has won the Commerce Department's Presidential E-Award for export excellence. To succeed in its export efforts, the 14-employe firm had to find ways of shipping temperature-sensitive biological products.

"We have to consolidate and organize our shipments so they can pass through customs and be in our distributors' freezers within four or five days," explains Markovits. "We found small air-freight companies willing to give us the extra effort and follow-up we need. And we have an excellent traffic manager—an absolute necessity."

The Commerce Department offered advice on financing, dealing with regulations and marketing. When BioDx decided to move into a specific market, the department's country specialist briefed the company's officials on local customs, manners and ethics. Market profiles of individual countries were provided, too—profiles that would have been prohibitively expensive for a small company to develop.

"I really think their services have been excellent—in an advisory capacity and in searching out new distributors," says Markovits.

Another E-Award winner that obtained export guidance from Commerce is Amigo Sales, Bridgeport, Mich., which manufactures and sells a small, three-wheeled scooter for handicapped people.

Developed by Allan Thieme, the firm's president, the scooter is a sporty motorized wheelchair. Amigo's success has been so remarkable that in 1981 the Small Business Administration named Thieme the Small Business Person of the Year. [See NATION'S BUSINESS, July, 1981.] International operations were launched in 1975, and today the firm has markets in some 40 countries.

However, not every company that decides to export succeeds. Sometimes, according to Jerry Morse, acting director of the Commerce Department's Export Awareness Division, a firm founders simply because it failed to develop a consistent, well-defined export plan.

"Many get in, make a sale or two, then get out," he says. "That kind of on-again, off-again approach doesn't help them, it doesn't help us, and it doesn't help the nation."

SMALL EXPORTERS become easily discouraged, Morse says, by the paper work involved or by problems that can arise with collections if the necessary lines of credit are not obtained. So he advises firms to work with a good bank with international service capabilities for collection services and financing assistance.

Finding a good sales agent or distributor is another key, Morse notes. A firm that signs a contract with an unscrupulous agent could find its products not moving as a competitor's take off. Good legal advice, therefore, is essential.

"Any of those things can sour you," says Morse. "You say, 'Well, it's too complicated. I'm not going to participate any more.' But there is tremendous potential for the firm that establishes a good, solid, consistent plan. And we can help."

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"are nowhere near the potential they have for foreign trade. Medium and small firms haven't had to export to live before because our domestic market has always been large. That situation is changing. More and more, to succeed, markets abroad will have to be tapped."

Baldrige's department offers more complete services for potential exporters than any government agency, but assistance is also available from others, including the Small Business Administration and the Export-Import Bank.

"It's almost shocking how little information firms have about what help is available," notes Jack Whiteley, acting director of the Commerce Department's Office of Export Marketing Assistance. "We have to do a better job of merchandising and promoting our services."

Whiteley estimates that the number of small and medium-size exporters could easily be doubled. He suggests that executives interested in selling to markets outside the U.S. contact a Commerce Department district office as a first step. There, he says, they will find such publications as *A Basic Guide to Exporting*, a 133-page book that shows the potential exporter what is needed to establish profitable trade abroad and how to obtain help.

Offices also have experts on hand. "A specialist will ask you about your company and your product and your motivations," explains Whiteley. "He will analyze this information and help you determine your best approach."

The specialist may suggest that you attend a seminar sponsored by the Commerce Department with the cooperation of SBA, local and state groups or trade associations. With help from Commerce, major trade associations have set up industry export councils to help generate increased trade in these fields: recreational equipment, high technology (including electronics, aerospace and instrumentation), automotive parts, medical equipment, household consumer goods, mining equipment, security and safety equipment, food processing and packaging, process control and scientific instruments, computer and business equipment, telecommunications equipment, metalworking, electronic components, alternative energy and plastics processing.

COMMERCE PROVIDES individual market studies to help companies decide the potential for their products in a given country. Trade fairs abroad offer good opportunities for U.S. firms to display their wares, and the department publishes a booklet that gives trade fair schedules. For $25 a company can place an ad in another Commerce publication that is circulated to potential buyers abroad.

In short, Whiteley says, the department can offer the kind of assistance a smaller firm needs to develop an export marketing plan and implement it.

SBA runs its own management assistance program for small firms eager to export. Members of two groups—the Service Corps of Retired Executives (SCORE) and the Active Corps of Executives (ACE)—who have had experience in international trade will counsel neophytes. In addition, Small Business Development Centers at several universities have established programs to help. And the Small Business Institute can provide teams of students who will assist small firms.

TO TAKE ADVANTAGE of SBA services, Michael E. Deegan, a trade specialist in the Office of International Trade in Washington, recommends contacting SBA regional offices for help. A new SBA financing program that provides a revolving line of credit was established by the Small Business Export Expansion Act of 1980. Deegan expects it to be implemented this month, as soon as regulations have been written. Small businesses will be able to obtain a revolving line of credit through SBA for up to 18 months, with an opportunity to renew once the line is paid off. The purpose, Deegan explains, is to assist with the cash flow of small firms as they expand into the export arena.

The Export-Import Bank, meanwhile, provides loans, guarantees and insurance for U.S. export sales to foreign buyers, both private and government. One program enables U.S. commercial banks to make competitive fixed-rate, medium-term export loans to manufacturers with annual sales under $25 million. The borrowers can then offer their customers attractive financing covering 85 percent of the contract value; the current interest rate is 13 percent. Larger firms can finance 65 percent of the contract value.

But according to William C. Bair, vice president for finance at the French Oil Mill Machinery Company in Piqua, Ohio, Eximbank's help often isn't enough to enable American firms to close a deal abroad. The problem: A competitor's government might offer him financing at heavily subsidized interest rates that give him the edge.

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John D. Bierman, senior vice president at Eximbank, understands. "The availability of credit can sometimes be as important as pricing in making a sale overseas," he recently told the House Small Business Subcommittee on Export Opportunities.

Bierman noted, however, that as of last July, Eximbank was supporting more than $3 billion in export sales by small businesses, a sum that accounts for 13 percent by dollar volume of the bank's total business.

Detailed information about Eximbank's assistance to small business can be obtained via its small business hot line at (800) 424-5201 (in Washington, D.C., call 566-8860).

MEANWHILE, the subcommittee and the Chamber of Commerce of the United States are planning a series of meetings around the country to determine what the export potential for small business is, what obstacles limit exports and what should be done.

The sessions are scheduled to be coordinated with Small Business Week activities, May 9-13, and the resulting export expansion plan will be proposed at the Chamber's board meeting in November.

"We want to get some kind of national consensus on what practical steps are needed to unleash exports for the small company," explains Ivan C. Elmer, director of the Chamber's Small Business Center.

Major problems facing small business exporters, according to Howard Weisberg, director of international trade policy at the Chamber, stem from the need for financing and marketing assistance and from U.S. laws that hinder competition with foreign firms.

"Export sales require a longer financing term, and small businesses can't string out their resources, as larger companies can," explains Weisberg.

One solution, he says, is legislation that would facilitate creation of export trading companies. They would provide services necessary to link U.S. firms with customers abroad.

The bill would modify antitrust laws so companies could work together to develop foreign trade opportunities. Banks could participate, providing capital and international expertise.

"If you have a bank tied in, that's a big thing for the small guy who doesn't have the expertise to obtain the capital he needs," says Bair.

The legislation has been passed by the Senate but is stalled in the House, with jurisdiction split between the judiciary and banking committees. A major roadblock appears to be Rep. Peter W. Rodino, Jr. (D-N.J.), chairman of the Judiciary Committee and its Subcommittee on Monopolies and Commercial Law.

PHOTOS: MARY ANN GATTY

Firms that want advice on markets abroad need only ask, says the Commerce Department's Jack Whiteley.

Rodino complains that the Senate bill is "too burdensome and provides far too much bureaucracy." He objects to provisions that give the Commerce Department authority for certifying export trading companies. That power, if it is needed, should reside with the Attorney General, he says.

"The whole thrust of this legislation goes to the antitrust laws," notes Rodino, "and it is the Attorney General who is responsible for enforcing them. The purpose is to relieve potential export traders from the anxiety they say exists about possible violations of antitrust laws."

Rodino's subcommittee has introduced legislation that simply clarifies two key antitrust statutes so that U.S. firms can work together in export trading companies without fear of violating the law—as long as their activities do not adversely affect the domestic marketplace.

"I recognize there is a vast area out there open for us in foreign trade," says Rodino.

HOWEVER, he cautions that if export trading company legislation is to win approval this year, it will have to be along the lines of his bill, which would put any certification requirement in the hands of the Justice Department.

Still, Rodino says, it will be possible to get the measure approved this year. "I want to encourage people to get into the marketplace," he says.

One key official who also wants the export trading company bill approved is

The shape of a bill to modify antitrust laws and permit export trading companies may rest in the hands of Rep. Peter Rodino, who doesn't like the Senate version.

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U.S. Trade Representative William E. Brock.

"I don't suggest it's going to change the world in the short term," he says. "But five years from now, we are going to get huge benefits from having passed this legislation."

And he believes it has a good chance.

"Congress is turning on," says Brock. "It is much more trade conscious than it was five years ago, by a huge order of magnitude. They are going to provide opportunities for medium and small businesses. That's where this bill can have an enormous effect."

The other major bill that Weisberg believes is needed to help encourage small business trade would clarify the Foreign Corrupt Practices Act, blamed by many American firms for their inability to compete abroad. The law, passed in 1977 following bribery scandals, places restrictions on U.S. companies operating abroad that their competitors do not face.

A NEW MEASURE would allow U.S. firms to follow practices considered normal in many countries, putting them on equal footing with their competitors. Approved by the Senate, the bill is pending in the House.

Weisberg agrees with Commerce Secretary Baldrige that it is time for small and medium-size firms to look at international trade.

"Throughout much of our history, the U.S. market has been big enough for all businesses, big and small, to profit and to grow," he says. "But it's not the same any more. A lot of small businesses have not yet begun to see the dollar-and-cents benefits of exporting their products or the buffer that exporting can offer in time of recession."

Many companies, Weisberg notes, believe entering the international trading arena is too complicated.

It needn't be, contends Arthur Markovits of BioDx.

"American small businesses should look beyond the domestic market," Markovits suggests. "In doing so they may discover that the marketplace beyond our shores is actually greater than that within."

And, he maintains, dealing abroad is no more complex than being involved in interstate commerce.

Adds Amigo's Thieme, "There is tremendous potential in the international marketplace. There is no reason to be afraid. Besides that, we help our country by selling abroad. We have an obligation to do that." □

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BOOK BONUS

What It Takes To Succeed In ALE

Matthew J. "Joe" Culligan has had a long career in selling (he is credited with developing techniques, including use of closed-circuit TV in sales presentations) and as an executive (he has been president of Curtis Publishing Company and executive vice president of NBC).

He has also had a career as a writer—he is the author of six titles, including How To Be a Billion Dollar Persuader. *Following are excerpts from his new book,* Getting Back to the Basics of Selling.

When a sales organization conducted a study to determine the characteristics of its top salespeople—roughly 25 percent of the sales force, who were responsible for 75 percent of the sales—no significant differences could be found.

The high performers were not better looking, better dressed, better educated, smarter or younger. But all had one characteristic: Time after time, their customers rated them as nice. When a top sales manager was told about this, he replied, "I'm not surprised. I always try to hire people I like to be with. If I like to be with them, then the chances are that the customers will feel the same."

What is niceness? It is a complex mixture of such traits as self-respect, respect and consideration for others, courtesy and manners, pleasant personality, good humor, sense of humor and thoughtfulness. The sum of these characteristics, I think, is what is identified as niceness. Other qualities contribute to that perception and are probably a part of niceness. These include honesty, loyalty, character, forthrightness, dependability, honor, sense of fairness, tolerance and empathy.

Niceness is, in the final analysis, all those traits one expects to find in a well-rounded, secure, responsible, mature individual.

Another common characteristic of successful salespeople is the priority they put on preparedness, on being ready for virtually any eventuality. This includes total mastery of the facts, figures and procedures related to the products or services they are selling and their company's policies, prices and discount schedules. It means carrying a sufficient supply of leave-behind literature, business cards, order forms, samples and so forth. It also means making each call prepared to do their best by being physically and mentally alert.

ILLUSTRATION: GARY YEALDHALL

The first impression we make on a stranger—whether in business or socially—can have a lasting effect. But when you consider that the first impression can be good, neutral or bad, the odds are not all that favorable. A neutral impression can be improved upon, and even a bad one can sometimes be reversed over a period of time.

Certain attributes and behaviors foster a bad first impression and should simply be eliminated. Examples are rumpled, soiled, spotted or inappropriate clothing; poor personal hygiene; lateness; profane language; disrespect for people other than the prospect; condescending attitude; being uninformed about the prospect; rambling, disorganized presentation; argumentative or combative responses; unresponsiveness to questions or comments.

A good opening for a conversation is important. If it is clever and memorable, you've made an important step toward creating a good first impression. A cheerful, friendly remark is generally quite acceptable. Mumbling unintelligibly is almost as bad as saying nothing. Obviously, saying something silly, stupid or in poor taste is also to be avoided.

Other weaknesses in approach include an overly bluff or hearty manner, rushing the presentation or dragging it out; unnecessary repetition (although some repetition of key points to dramatize their importance is an excellent strategy); mishandling of eye contact (since eye contact is important, seek a balance between avoiding it and staring, both of which make others uncomfortable); and pushing or avoiding the personal touch (the former seems

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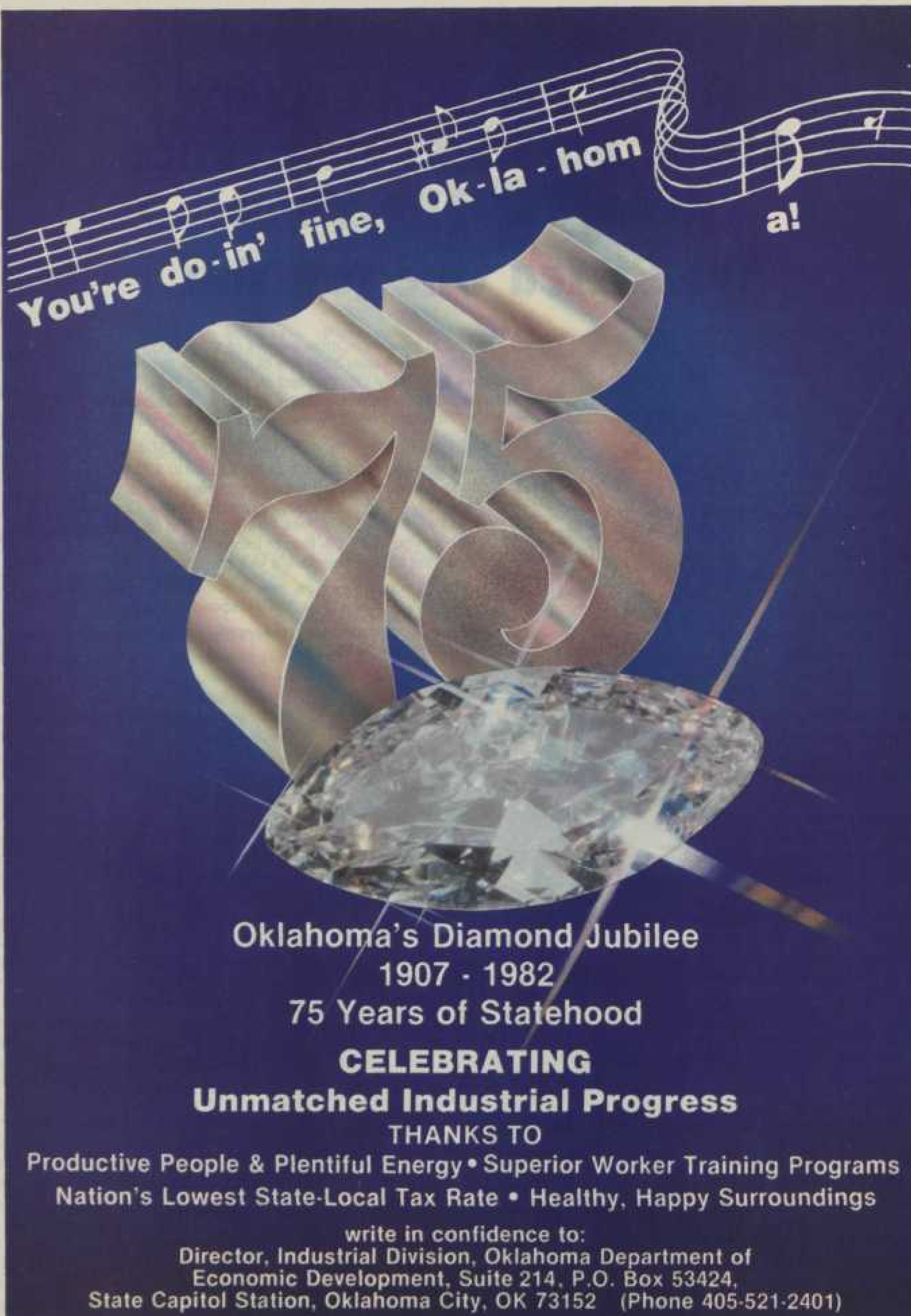
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like prying or confession, which puts people off and makes them defensive, whereas the latter makes you seem cold or distant).

There are things that a good salesperson can do to promote a good first impression but that seldom detract if they are not done. Develop a repertoire of good stories and jokes to be used as appropriate. Keep up on current events—especially sports, national news and, most importantly, news that could affect your field—so that intelligent, informed conversation is possible. Be curious and don't be afraid to ask questions; in this way you can not only increase your store of knowledge but also let the prospect know that you are genuinely interested in hobbies, activities, travel, family and so on, if any of these topics come up in conversation.

Remember, though, that making a good first impression is as much a matter of judgment as it is technique and preparation. What you do and how you act must be tailored to the individual you are meeting. By being flexible, you will be able to adjust, react appropriately and say or do what is right.

IT WILL SOMETIMES happen, though, that there is very little you can do to succeed in starting off the new relationship on the right foot.

When I was a young apprentice salesperson, working part-time one summer, I was invited by the regional sales manager to accompany him on a sales call. He was the most impressive man in the organization: tall, handsome, well-dressed, hearty, with a booming voice and an unusually broad vocabulary. His handshake was firm, and his hand was always warm and dry. He exuded confidence and competence.

We entered the prospect's office, and I immediately noted the contrast between my hero and the buyer, a small, shy, balding man who stuttered nervously during the early stages of the meeting. As he sat, his feet barely reaching the floor, and listened wide-eyed to the beautifully flowing language of the sales manager, he appeared awestruck.

Then, subtly, his attitude began to change. I thought I could see a look of envy stealing over his face.

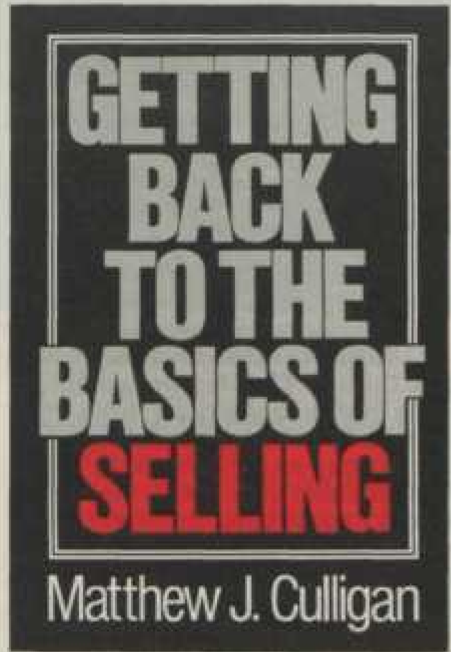
It suddenly occurred to me that there was something wrong with this matchup. On the one side was the huge sales manager who seemed to be blessed professionally, physically and socially. On the other was the little man who had almost none of those gifts but who did have the power to buy or not to buy.

I realized that in spite of the sales manager's skill, we would not get an order from this man. I could almost read the buyer's thoughts: "This guy has everything. Why should I give him my business, too?"

There were other salespeople who would have been much better in confronting that particular buyer, individuals who would have had something in common with him. And having something in common with a prospect is a critical basic element in creating a good first—and lasting—impression.

Still other elements involving the salesperson's orientation to his or her work are crucial to success.

The first is personal pride. The way one acts, looks and is perceived by oth-



ers makes a difference. Pride leads the individual to strive to behave in a way consistent with a personal set of values, to meet certain standards of excellence—to speak well, be attentive to others, be perceptive, think clearly, avoid pettiness, act responsibly and be well-groomed.

Closely related is motivation, the desire to succeed, to do whatever is required to reach one's goals. It is what makes people put in extra effort to be more effective and efficient.

One characteristic commonly found in successful salespeople is good attitude. This is not just a matter of being positive or optimistic. More important is acceptance of the realities of a situation with equanimity. What this means is a disinclination to complain or whine. To react negatively is destructive to one's morale and to team spirit and is a waste of time and energy.

For example, no product is perfect in every way for every prospect. Despite huge amounts of money devoted to research and development, design and testing, there is always room for improvement. Constructive criticism and suggestions are welcomed by progressive management; griping and complaining are not.

THE QUESTION OF ATTITUDE is related to the quality called focus, or perspective. This is the ability to channel one's time, energy and attention toward things that matter most and to avoid distractions, side issues and trivial matters.

I ran across an excellent example of the importance of focus in a story about a former New York Giants football player, Dick Lynch, one of the best linebackers ever. A linebacker's primary goal is to defend against runs and passes in the zone he patrols. Lynch was so good that opposing quarterbacks rarely attempted passes to receivers in his zone, which meant that he effectively reduced the opponents' field of action and hampered their offensive strategy.

But for a linebacker, the ultimate in fun and excitement—and a way to get press and public notice—is to make interceptions. Lynch decided one season to work on getting more interceptions—and he did, but his opponents were also completing more of their passes to his zone. In several conferences with the coaches, it was concluded that the change in focus was the problem. Where previously he had only one objective in mind on pass plays (preventing completions), he now had two (preventing and intercepting passes). The change had made him a split second less decisive in his actions, and that was all the opposing quarterbacks and receivers needed. Dick decided to return to his original focus, and his effectiveness returned.

The focus of a salesperson should be on selling and on doing all those things that promote making each sale. Competing with others, making friends with colleagues or clients, building up one's feelings of self-worth and even getting ahead in the business world flow from concentrating on one's primary goal. Focus on selling, and the others will probably follow. □

From Getting Back to the Basics of Selling, *by Matthew J. Culligan. Reprinted by permission of Crown Publishers, Inc. Copyright © 1981 by Matthew J. Culligan.*

A message from one of the nation's leading authorities on utility securities...

HEALTHY UTILITIES CRUCIAL TO NATION'S SMALL SAVERS

By Sanford I. Weill

Chairman, Shearson/American Express Inc.

"Sandy" Weill is chief executive officer of Shearson /American Express Inc. and chairman of the executive committee of its parent company, American Express Company. The nation's fastest growing major financial services firm, Shearson /American Express serves more than 600,000 active investors around the world.

From my perspective, the financial health of the investor-owned electric utility industry is crucial to America.

Business and industry are dependent upon adequate, reliable power at the lowest possible price. Without it, the companies in which our clients invest could not prosper.

Emerging industries could not grow, and basic industries would disintegrate. Essential programs to rebuild the nation's industrial plant and increase productivity would be doomed.

$340 Billion Needed

Electric utilities will have to spend about $340 billion in the remainder of this decade to increase the efficiency of existing facilities, reduce dependence on petroleum fuels and build the minimum capacity required to meet tomorrow's power needs.

At least half that capital will have to come from outside investors. For utilities, probably more than any other kind of business, that means being able to attract the savings of individuals.

Small savers traditionally have invested in utility stocks to preserve capital, to obtain dividend income that at least kept pace with inflation, and to build equity in a stable and essential institution.

Utilities benefited not only from the use of funds invested directly by shareholders, but from increased borrowing capability that a strong equity ownership base provided. As a result, the industry could build the world's most reliable energy delivery system.

However, during the 1970s, economic conditions and the failure of state regulatory commissions to respond adequately to those conditions had a serious effect on utilities and their shareholders.

Regulatory commissions, trying to insulate consumers from the full impact of inflation, kept authorized utility returns below those of competitive investments, such as money market funds and government securities.

Individuals seeking to preserve their savings by investing in utility stocks instead saw their capital eroded. Dividend payments, after adjustment for inflation, have actually declined.

Consumers Subsidized By Shareholders

In effect, utility shareholders were subsidizing consumers of electricity, and the securities markets responded accordingly.

To attract new capital, utilities have been forced to issue stock at prices below book value, causing dilution of the equity ownership of existing shareholders. The portion of utility earnings required to pay dividends has climbed precipitously, leaving less to be reinvested in the system.

Current low market prices, in relation to book value, make some utility stocks attractive today, particularly those of companies in states where the regulatory environment apparently is becoming more reasonable. Action at the Federal level which enables shareholders to defer taxes on reinvested dividends provides an additional incentive.

But a great deal still must be accomplished to overcome the negative impact of the regulatory policies of the last decade.

Returns Must Be Competitive

Not only must authorized returns be high enough to compete with other investments, but the regulatory climate must enable utilities to earn those returns. Rate proceedings must be speeded up, and the proportion of cash earnings to non-cash credits included in returns must be increased. Mechanisms must be put into place that permit utilities to recover current financing costs for construction projects.

When utilities can attract new savings without diminishing the investment of existing shareholders, they in turn can make the capital investments necessary to assure adequate, reasonably priced power in the future.

Sanford I. Weill

Sanford I. Weill

This is one of a series of messages sponsored by the Edison Electric Institute, representing the investor-owned utilities that deliver 77% of the nation's electricity.

Participating independent authorities are not paid for these messages, but present them because they believe the issue is of critical national significance. EEI welcomes your comments.

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The Financial Revolution

PHOTO: GORDON BAER—BLACK STAR

Automated teller machines help banks cut costs. But the bankers are counting on deregulation to help them stay healthy and avoid the plight of savings and loans.

Radical change is under way in an industry through which millions of us borrow and invest. This article tells why.

By Stephen M. Aug

A FUNNY THING happened on the way to deregulating the nation's banking and thrift industry: Congress created a new regulatory agency.

The first thing the Depository Institutions Deregulation Committee did was plunge into the regulatory thicket of premiums—the gifts that banks and savings and loans bestow on new depositors. For years the value of premiums had been limited to $5 on new accounts of $5,000 or less and $10 above that. But these days, $5 isn't much of an inducement. According to DIDC, institutions were giving away expensive premiums and hiding the extra cost under shipping and handling expenses, which were not limited.

Regulators committed to deregulation might have winked at such infractions, knowing that the whole matter of premiums would soon be deregulated anyway. But not the DIDC regulators. They proposed to ban premiums altogether. The bank premium industry quickly lobbied against the ban.

Result: DIDC doubled the allowable premiums to $10 and $20 but included shipping and handling.

DIDC's impact on the financial community will go beyond limiting the value of toasters and alarm clocks, however. The committee was set up in 1980 to phase out Regulation Q, which sets ceilings on interest that institutions may pay on deposits and allows savings and loans a quarter-point above commercial banks' ceiling. Voting members include Treasury Secretary Donald T. Regan, Federal Reserve Board Chairman Paul A. Volcker, and the heads of the Federal Home Loan Bank Board, Federal Deposit Insurance Corporation and National Credit Union Administration.

The phaseout, supposed to be completed by 1986, has such far-reaching implications for the industry that DIDC is being pressured on all sides.

Banks, for example, want interest rates deregulated as soon as possible so they can attract funds. Savings and loans, which can't afford to pay higher interest on new deposits, want to keep interest rates down and retain their quarter-point differential as long as possible.

Deregulation aside, the entire financial industry is being reshaped by forces that neither it nor the regulators can control.

"The single largest force is coming from the marketplace, from consumers," says James D. Robinson III, chairman and chief executive of American Express Company. "They are seeking to deal with inflation. They are looking for convenience and a fair return on their money."

Those changes are pushing banks and thrift institutions out of the comfortable, tightly regulated environment in which they have operated for more than a generation. Consumers have shown little loyalty.

Many of them had probably never heard of a Treasury bill when the first money-market mutual fund—the Reserve Fund—was formed in 1972. But in 1974 interest rates took off while the stock market plunged. That year money-market funds wound up with $1.7 billion on deposit, which was still only about 3 percent of all the money in mutual funds. By the end of last year, money-market funds had some $182 billion in assets.

WHERE THE MONEY in money-market funds has come from depends on who is giving the figures. Bankers say 70 percent came from commercial banks. The Investment Company Institute, a trade association of mutual funds, says the money is basically new, cash that previously would not have gone into savings.

Whatever the source, the thrifts have been left practically prostrate. In 1981 withdrawals at the nation's 3,800 S&L's and 400 mutual savings banks outdis-

STEPHEN M. AUG *covers business and economics-related aspects of government for ABC News in Washington.*

tanced deposits by $39 billion. There is still about $600 billion in money-market and small savers' certificates at banks and thrifts, but even that tidy sum may be aggravating the problem: Thrifts have to pay more to attract new money than they earn on old funds. They now pay about 12 percent to get cash, while their mortgage portfolios give them a return of about 10 percent.

For now, commercial banks are somewhat better situated. Because their loan portfolios are relatively short term, they can raise interest rates more frequently. Also, they have access to a variety of investments that thrifts don't—business loans and corporate checking accounts, for example.

But time is closing in on the bankers as well. There is growing competition from foreign banks, which have opened offices here and also taken over some major American institutions.

Money-market funds are another worry. Banks, like S&L's, can offer high yields on some longer-term savings instruments, since DIDC has already deregulated interest rates and premiums on long-term certificates. But they can't compete with the high yields plus liquidity that money funds offer.

And banks, which for so many years had a virtual lock on commercial loans, many consumer loans, checking accounts and financial management, have to compete with the emerging financial supermarkets.

The new one-stop financial shopping centers include some true giants of American industry. Sears, Roebuck & Company, for instance, may well be the prototype of the financial supermarket of the future. Sears is in insurance, consumer finance, and commercial and residential real estate, and it owns an S&L and one of the country's largest stockbrokerage firms. With a customer base that includes 25 million active credit card accounts, about 860 retail stores and 1,200 Allstate insurance offices, the potential is enormous: Sears has far more customers and outlets than any bank could possibly claim.

Then there's Merrill Lynch & Company. Recently, Merrill Lynch introduced Equity Access, an experimental program available only in Southern California. A customer gets a Visa card and a line of credit against a percentage of the unencumbered equity in his home. He can pay back both principal and interest or, for a time, only the interest. Since interest is the prime rate plus 2.5 percent, with a floor of 14 percent, getting an Equity Access loan is potentially less costly than using a revolving charge account.

Five years ago some offices of Merrill Lynch offered a cash management account, which combines a margin account with a money-market fund. Customers' cash balances no longer lie idle in brokerage accounts. Access to that cash management account is by either check or Visa card. Today the cash management program has grown to some 600,000 accounts and a value of about $30 billion. The average customer writes only six checks a month on his account, most of them large checks.

PHOTO: JEAN-CLAUDE LEJEUNE—BLACK STAR

The size of the Sears Tower in Chicago symbolizes the soaring aspirations of a retail empire that has gone into finance.

What is left for bankers? Answers Leonard W. Huck, executive vice president of Valley National Bank of Arizona, the nation's 28th-largest bank: "We get the utility payments and grocery bills while Merrill Lynch gets the big bucks and the large checks."

Huck, also president of the Bank Marketing Association, knows how banks are countering the threats. They are cutting costs, charging for services that had been free and raising charges on others. "We're seeing how we can lower our costs," Huck says. "Instead of building brick-and-mortar branch offices of 6,000 square feet, can we build them half that size?

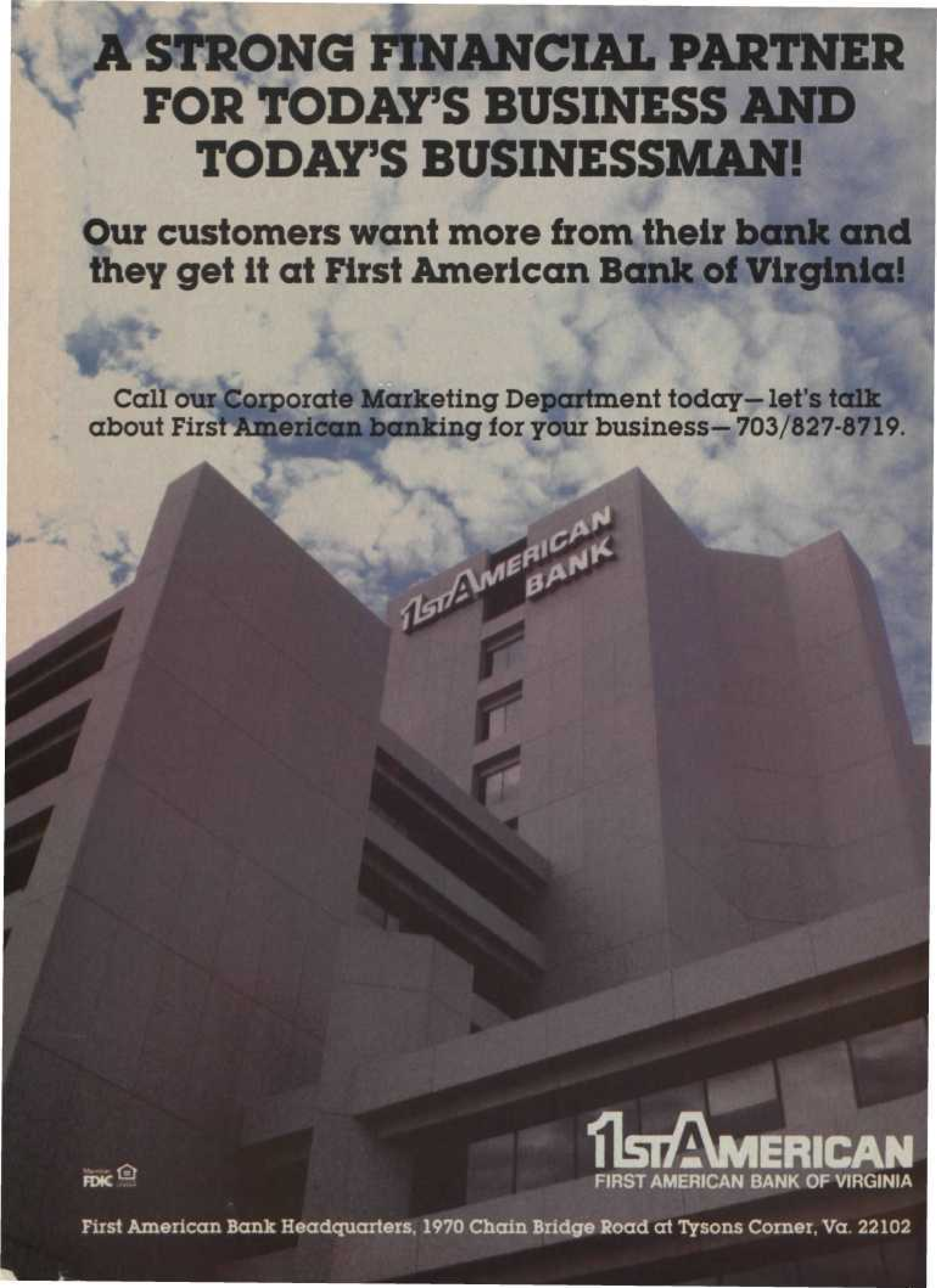
"We will have to raise our rates on credit cards and consumer loans. We thought high interest rates were just an aberration; now it looks like double-digit interest rates may be the way of life. We're going to have to pass that cost on to the consumer."

Valley National appears ready to follow other banks into individual lines of credit. This cuts paper work for consumer loans, since only one application is necessary. Once a line of credit is established, the bank can earn money quickly: When a depositor overdraws his checking account, for example, the bank covers it in $50 increments.

Banks are also re-evaluating the way they have operated. Huck says: "If you were a long-time customer, we'd waive the charge for an overdraft. Now we're charging."

Huck concedes that none of this will make friends, even though bankers today need all the friends they can get. Certainly, there will always be favored customers, and many banks have tried—to a degree—to protect small business people, especially farmers, by offering them loans at rates slightly below the prime.

But the new products bankers want are beyond the reach of most of them. One is brokerage. Banks are allowed to provide limited securities brokerage services for customers. But banks must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Tony Trabert, former Wimbledon, French and U.S. Champion, eats Kretschmer Wheat Germ. At age 51, he is active in tennis and a member of the Tennis Hall of Fame.
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Under the Glass-Steagall and Bank Holding Company acts, banks are barred from markets and products that many consider natural adjuncts to banking: mutual funds, insurance and securities underwriting, brokerage services. They are also forbidden to branch across state lines except under very restrictive circumstances.

Banks have been able to find ways to cross state lines. One increasingly common way is through bank credit cards. Banks are also looking at agreements to honor each other's automated teller machine cards.

Samuel H. Armacost, president of Bank of America, the nation's largest commercial bank, points out that with today's technology, physical proximity of traditional banking offices is less important. "People want investment services, estate planning advice, insurance, inventive financing for a home or business," he says. "Their needs are also more complex and tend to cross the legal demarcations among financial businesses."

BankAmerica Corporation may have skirted the Glass-Steagall prohibition against underwriting by banks in its planned purchase of Charles Schwab & Company, the country's largest discount brokerage firm. Because Schwab only executes orders and does not buy stock for its own account or underwrite stock issues, the purchase appears to conform to the law. And in acquiring Schwab, the company will get one of the most highly automated brokerage firms plus 220,000 investors both in California and outside: "We're acquiring a customer base," says Stephen T. McLin, a senior vice president.

Schwab already invests excess customer funds in the Kemper money-market fund, an arrangement that could turn into a service for Bank of America customers. Beyond that, McLin says, the Schwab acquisition could "offer brokerage on a more systematic basis" to Bank of America's 4 million customers.

NOT EVERY BANK can take over a major brokerage firm—and do it legally. And even if Congress changes the rules on what a bank is allowed to offer, not every bank will be able to generate its own services. It may buy them.

That is where firms like American Express Company may come in, supplying services to banks that don't "manufacture" their own. "Retail banks, like supermarkets, distribute products supplied by others," says William M. McCormick, an American Express senior vice president. McCormick was involved in American Express' acquisition of Shearson Loeb Rhoades, the nation's second-largest securities firm—a merger that could open new asset management programs to the 13 million American Express card holders.

Home banking is a gleam in American Express' eye. Its partner, Warner Communications, is poised to offer a two-way cable setup, QUBE, whenever banks and their customers give the word. Warner would be a common carrier, like the phone company.

PHOTOS: WARNER AMEX

"Banks make their own products, like checking accounts," McCormick says, "but they ought to sell whatever customers want. We see ourselves as suppliers of traveler's checks, credit cards, money-market fund services."

Some banks have already signed up to offer money-market funds through Shearson/American Express. That may not keep the depositors' money in the banks, but it does keep the customers dealing with the bank and paying fees for the service.

American Express is also positioning itself for home banking. Through a partnership with Warner Communications, it owns 50 percent of Warner Amex Cable Communications and Warner Amex Satellite Entertainment Company. Warner's QUBE system is the first two-way cable. Technologically, the elements of home banking are in place. But as McCormick says, "The issue is how, if and when people want to handle banking at home on a television screen."

Such a program could be far off. What is immediate is the plight of savings and loans. Losses totaled $5 billion last year, and mergers are obliterating roughly one S&L a day—on top of nearly 300 mergers last year.

TWO NEW SAVINGS instruments could help the industry. One, the temporary all-savers certificate program, permits a saver to receive tax-free interest. The other, the Individual Retirement Account, enables a wage earner to set aside $2,000 tax-free each year. Since about 100 million people are eligible, IRA's could theoretically bring $200 billion into the savings system a year. Not all of those who take advantage of this shelter will put their money into S&L's.

Nevertheless, savings industry officials are looking for perhaps $30 billion this year. S&L's traditionally get 25 to 30 percent of savings.

To keep S&L's out of trouble, federal regulators have been encouraging mergers of weak thrifts with stronger ones. In some instances this strategy has involved mergers across state lines.

Federal regulators can also make outright contributions to the surviving institution by indemnifying it against

losses it might incur by picking up a failing S&L. Or the surviving S&L can issue "income capital certificates" to the Federal Savings and Loan Insurance Corporation, which gives the S&L a promissory note to cover them. No cash changes hands. But the certificates count as cash on the S&L's balance sheet, bringing the institution's net worth up to an acceptable level. If the S&L becomes desperate, FSLIC makes good on its note.

Roy G. Green, chairman of the U.S. League of Savings Associations and president of Fidelity Federal Savings & Loan of Jacksonville, Fla., says the thrift industry needs three things to survive and compete:

"First, the federal government must speak to the problem of low-yielding mortgages. Second, the government should address the temporary problem of deteriorating net worth. Third, expanded asset and liability powers."

The industry's solution to low-yielding mortgages is creation of a federal entity that would swap five-year debentures for existing low-interest mortgages. The debentures' yield would be tied to current yields on Treasury securities. Once interest rates moderated—and savings and loans regained their health—the S&L's would reacquire the mortgages.

THIS SAME government agency would also deal with the declining net worth of savings and loans by guaranteeing that the institutions have the required net worth to continue operating—and making good on the guarantee if they don't. It's estimated that hundreds of S&L's will approach zero net worth this year if interest rates remain high.

The bid for expanded liability and asset powers is the thrifts' way of saying they want to become more like commercial banks. They may get their wish. The Federal Home Loan Bank Board wants to let federal S&L's operate mutual funds and money-market funds, lease equipment, sell real estate, make business loans, underwrite insurance, operate as stock and bond brokers and become debt collectors.

Green says high interest rates, low-yielding loan portfolios and lack of operating flexibility place "thrifts at a competitive disadvantage."

Pending legislation includes help for thrifts and banks. For example, Rep. Fernand St Germain (D-R.I.), chairman of the House Banking, Finance and Urban Affairs Committee, would set up a $7.5 billion fund to aid S&L's. That's for the short term.

Sen. Jake Garn (R-Utah), chairman of the Senate's banking committee, would allow S&L's into activity from which they are now excluded: business checking accounts and loans, more types of consumer loans, mutual funds and other fields.

UNDER the Garn proposals the banks, too, could operate mutual funds. The legislation would also override state usury restrictions and state laws that prohibit due-on-sale clauses in home mortgages. Some states forbid these clauses, which require a mortgage to be paid off when the house is sold. S&L's contend that the assumption of low-interest mortgages hurts them and keeps mortgage money out of the market.

There is, however, considerable intramural squabbling over any legislation. Bankers don't want additional competition from S&L's. Brokers don't want competition from banks. Residential real estate agents don't want S&L's investing in commercial paper or making business loans lest mortgage money dry up.

To eliminate some of the squabbling, representatives of nine industry trade associations met at an unprecedented session early this year. About all they agreed on was that state usury ceilings should be lifted—and that their most important accomplishment was simply holding the meeting. There are signs that banks, savings and loans and credit unions may eventually unite on a number of issues.

But it is clear to most observers that there are two keys to turning the S&L's back to profitability and keeping the banks healthy. One is lower interest rates. The other is legislation that would permit banks and S&L's to compete with the largely unregulated, new financial businesses.

For as Treasury Secretary Regan puts it, "If we do not act soon to remove these restrictions, we may find that the problems of the thrift industry are only a precursor of the problems of commercial banks." □

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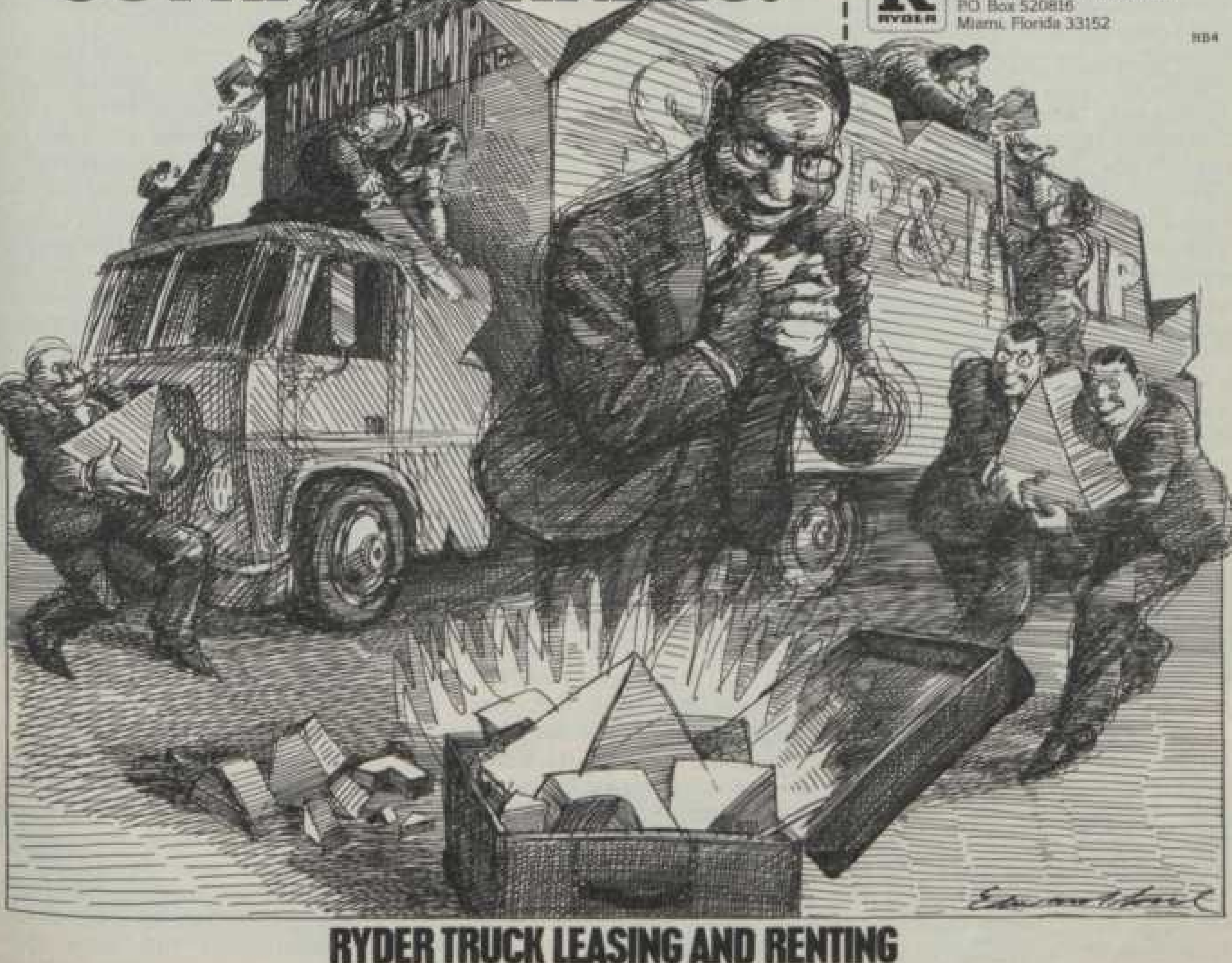

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Amazing Peter Grace

The founder of W.R. Grace & Company wouldn't recognize what it has become under his grandson's imaginative management.

By Mary Tuthill

GRACE

THE MAN who has headed W.R. Grace & Company for 36 years—longer than any other chief executive officer of a major U.S. firm—came into the family business reluctantly.

"My mother had just died, and my father had his heart set on my coming to the company," says J. Peter Grace. "It would have been ungrateful to have refused."

That was in 1936, when Peter Grace, 23 and recently graduated from Yale with a B.A. in economics, entered the company's training program, starting in the mailroom.

The company his grandfather had started was a banking and shipping empire, heavily dependent on sugar plantations in South America. William Russell Grace emigrated from Ireland to Peru at the age of 13 during the 1846 potato famine. He worked for a ship chandler at age 19 and became wealthy by selling fertilizer made from guano. At age 33 he established a trading firm in New York and was later elected mayor for two terms.

When his son, Joseph P. Grace, took the helm, emphasis shifted from international trade to industry in South America, and the Grace Line fleet was developed to carry passengers and cargo between North and South America.

Joseph also developed a philosophy that he passed along to his son. "My father told me that business was a game. 'You play it,' he said."

But it wasn't a game Peter Grace was eager to play. Working for his father's company meant giving up a life that he found very agreeable, a life of "massive affluence."

He spent his summers sailing on the family's 150-foot yacht with its 28-member crew and shooting grouse on a castled estate in Scotland. At Yale he lettered in hockey and was a practice goalie for the New York Rangers. After graduation he was a first-stringer for a semipro team. He had a 16-cylinder Cadillac, a private polo field with 30 ponies, a hefty income from a trust fund and many girlfriends.

"I didn't want to give it all up," says Grace. "I didn't want to live in Latin America for 20 years, and in those days everybody who ever got anywhere in this company had to live in Latin America. I didn't want to do that."

Working in the New York headquarters also had its problems. "It took four days to fly to Chile on a DC3," he recalls. "Executives had to leave for the airport at 2 a.m. Having to do that several times a year was not to my liking."

Although he found the work uninspiring, he went into it with the same determination and competitive spirit that were already a part of his life. When he first wanted to make a hockey team, he went out in the moonlight and practiced until he was good enough. His explanation for such striving: "I grew up in a household of many servants, and I felt I had to prove myself."

Proving himself at W.R. Grace & Company brought a series of promotions. Then, during World War II, his career was interrupted by a short stint in the Navy. He was discharged because of an ulcer, later cured by diet.

In September, 1945, his father suffered a stroke. D. Stewart Iglehart, Joseph Grace's closest associate, was ill. So Peter, then 32 and a vice president, found himself president of the company. He calls his sudden elevation a "fluke."

Allen S. Rupley, a director of W.R. Grace who has served the company in various capacities since 1917, recalls, "Right from the start, Peter put together a team to study what new lines of business we could go into."

Grace was shocked to find that the company was going downhill—"minus momentum," he calls it. But the same filial devotion that brought him into the company made him launch an all-out effort to save it. At the same time, he says, he was scared by his own inexperience, by the lack of good people and by the future of Latin America and shipping. He immediately set about reducing what he saw as overdependence on Latin America and building up a U.S. base for profits.

MOVING OUT OF Latin America, says Rupley, "took courage and a hell of a lot of energy." Grace calls it the most difficult business decision he has made. He put new directors on the board and persuaded them to go into long-term debt. "I had been taught that debt was dangerous," he says. "The idea of borrowing tens of millions of dollars and building new kinds of plants that we didn't know anything about looked so risky."

He recalls, "People thought I was crazy when a steamship company built a chemical plant in 1954. But I am convinced that if we had not changed our interests, there would not be a W.R. Grace & Company today."

Support came from a Chilean economist, Raul Simón. "He knew more about world commerce, politics and eco-

PHOTOS: SEPP SEITZ—WOODFIN CAMP

J. Peter Grace, chairman and CEO of W.R. Grace & Company, checks correspondence with a secretary (above) while flying in a company plane. In the rear cabin (below) he confers with several company executives.

nomic development than anybody I've ever seen, at least as far as Latin America is concerned," says Grace. "Back in the '30s, he predicted everything that has happened in Latin America: the destruction of private property, nationalism, the fact that no foreign companies would be able to borrow in the local banks, and how exchange rates would go to hell in a handbasket." Simón, who died about 10 years ago, ran the W.R. Grace operation in Chile.

The company moved into chemicals during the 1950s and is now the fifth largest chemical combine in the United States. It built an ammonia plant in Memphis and acquired some small chemical producers, such as Davison Chemical and Dewey & Almy Chemical. Though agricultural chemicals have been cyclical, W.R. Grace's specialty-chemical line, which includes flexible packaging materials, has been solidly profitable.

A move into commodity plastics—a high-density polyethelene—was a failure, however. Another failure was an attempt to develop convenience foods in Europe. But interests in oil, gas and coal have done well. About 10 years ago the company moved heavily into retailing and restaurants, with mixed results. It still owns several chains, including Herman's World of Sporting Goods, Far West Services and Del Taco.

Peter Grace managed to sell the 23-ship Grace Line in 1969 for $44.5 million. But the sugar properties in Peru were seized by the junta in 1974. And then all the businesses that constituted W.R. Grace when he took over were gone: It was an entirely new company.

Under Peter Grace the company has acquired more than 100 major business entities and has disposed of at least half. Analysts have been confused and say many investors have been put off by the extent of diversification.

"Many times the analysts were right," says Grace. "But they don't give us much credit for the fact that we're stable now. I'd say that any time anybody tries to create a company out of nothing, they're going to make mistakes."

In the early years it wasn't only the analysts who were a problem for Grace. In 1952 Grace survived by one vote being ousted by some of the company's more conservative directors. Staff turnover reached revolving-door proportions. Many executives couldn't take the 14-hour days. Others objected to the mountains of reports.

Over the years success has brought greater acceptance of his methods, and Grace says turnover is no longer a problem. Also accepted—but disliked by many—is his passion for numbers and charts.

"Numbers are the facts," he says. "Numbers are reality." To help keep up with them, he often wears a calculator on his left wrist.

A former executive recalls compiling a spreadsheet on accordion-folded paper with 1,000 columns that provided a total analysis of a $2 million expenditure. It stretched 60 feet. Another spreadsheet contained 2,400 columns. Says Grace, "I look at everything on a spreadsheet basis."

Those who work closely with him must adjust to his hours. Although he doesn't impose those hours on employes below the top level, there is what one calls "an atmosphere in the company that makes you want to get in early and work until a job is finished."

Grace was not always so thrifty with time. He recalls that while moving up in the company, he often felt overburdened with work. One day he complained to a priest (Father O'Hara, who later became a cardinal and president of Notre Dame University). The priest asked him who he thought was the smartest man. Grace named James Forrestal, the Secretary of Defense. The priest then asked whether he thought Forrestal would be as busy under similar circumstances. "No," Grace replied. Said the priest, "Then you are not really busy; you are inadequate."

Grace set about developing time-saving techniques. They are now honed to a precision worthy of professional time-management experts.

A typical day starts when his alarm goes off at 6. He leaves his Manhasset, Long Island, home only 10 minutes later for the 40-minute ride to his mid-Manhattan office. He carries a revolver because of the threats of terrorists who don't seem to realize that W.R. Grace no longer has properties in Latin America. During the ride he reads the papers

and dictates to a secretary who goes with him in his chauffeured limousine.

At the W.R. Grace building a key permits him to take the elevator nonstop to his office on the 48th floor.

Work is not interrupted by lunch, eaten in the office. On the way home, Grace and another of his six secretaries go through a flight bag of mail.

After dinner with his wife, Margaret, a secretary at the company before their marriage in 1941, he frequently does another four hours' work.

However, since he spends about half his time visiting the company's production facilities, offices and warehouses scattered throughout the U.S. and some 40 other countries, many days don't fit that pattern.

Travel is by company jet, and the already long hours often stretch to marathon work sessions. Aboard the plane, Grace and his staff, including a couple of secretaries, fall into a work pattern like a well-trained MASH unit. Most who have traveled with him can recall times when he became so engrossed in work that he forgot to eat—and also to order food for the staff. He is always apologetic when he discovers what has happened.

"I think an awful lot of people waste time," says Grace. "I don't go to movies, long dinner parties or cocktail parties." Grace also doesn't drink or smoke cigarettes: During his college years his father offered him $3,000 if he refrained. He smokes a pipe but doesn't inhale. And he doesn't drink coffee because, he says, "I'm too hyper."

He plays golf occasionally and likes to show that he can still drive a ball a long distance while standing on one foot. He frequently swims and plays tennis, sports that take less time. "I play tennis because all my children play tennis, and I like to see my children."

PHOTOS: GRACE

Peter and Margaret Grace pose with their children and their families.

Young Grace was a goalie at Yale in the days before protective face masks.

Grace has four daughters, five sons, and 10 grandchildren and two more on the way. Four children have worked at the company. One daughter, Nora, worked there for a year before going into publishing. The oldest son, J. Peter Grace III, left the company in 1981 after 15 years. Stephen is still there after 10 years, and Patrick has worked at W.R. Grace for two.

For them, Peter Grace says, it is just a job, and neither is being groomed to succeed him.

Specialty chemicals continues to lead in earnings for the company, although natural resources, retailing and restaurant businesses are also showing gains. Earnings for 1981 came to $361.3 million, or $7.58 a share on sales of $6.52 billion. That earnings figure is 26 percent above the 1980 number, $287.4 million, or $6.11 a share on sales of $6.14 billion.

Grace, who will be 69 in May, says, "Before retiring I just want to see the company even more stabilized in its business mix than it is today."

ONE REASON for seeking such security is the tremendous responsibility he feels for the 88,800 employes worldwide, more than 70,000 shareholders and thousands of pensioners. He is also committed to the Grace Institute, which was founded by his grandfather in 1897. The tuition-free school was intended to provide deserving New York women, especially immigrants, with practical skills. Today it offers training in secretarial skills, sewing, cooking, math, English and training for high school equivalency exams. Three of Peter Grace's secretaries are graduates.

He also squeezes in time to be a trustee of Notre Dame, and in addition to his many activities connected with the Roman Catholic Church, he has been treasurer of the National Jewish Hospital in Denver for 16 years.

Unlike his grandfather, Grace has not sought political office, but he has become an outspoken proponent of President Reagan's programs. He appeared with Phil Donahue on NBC's "Today" show and has spoken to many business groups.

Grace also ran a full-page ad in the *Washington Post* explaining the Reagan tax cuts. "It's time to get off President Reagan's back while he tries to get the government off our back," he tells business leaders.

In March, Reagan made him chairman of the Private Sector Survey on Cost Control in the federal government. The survey group will look for ways to save money by eliminating waste and tightening management in federal agencies.

Retirement would give Grace more time for those civic activities—and for hiking with his three Labradors around a home he owns in Maine, for the cattle he raises on 4,000 acres in South Carolina and for waterskiing at his home in Palm Beach. But he says, "Right now I don't have any plan for retiring." He is still too busy keeping, as his company's advertising slogan says, "one step ahead of a changing world." □

To order reprints of this article, see page 76.

(INVISIBLE MANAGEMENT)

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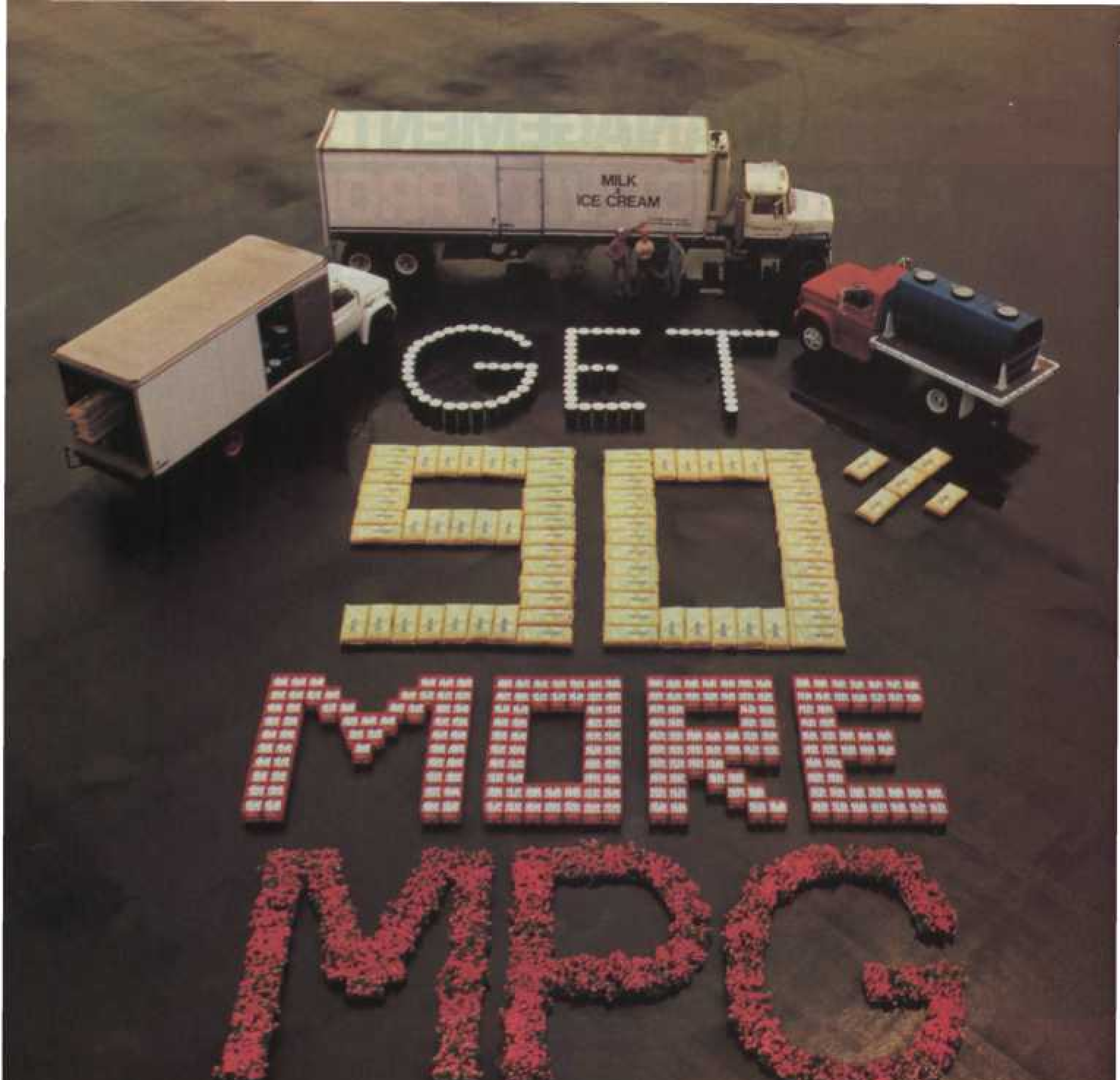

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MOROCCO

BUSINESS GUIDE

His Majesty Hassan II

MOROCCO

Economic Keys to a Kingdom

Official Name: Kingdom of Morocco

Population: 21 million

Area: 300,000 square miles

Language: Arabic is the official language, but business is also conducted in French, English and Spanish

Capital: Rabat (pop. nearly 600,000)

Other Main Cities: Casablanca (the "economic capital," pop. more than 2.2 million), Fes, Marrakech, Tangier, Meknes, Agadir and Oujda

Currency Unit: Dirham—DH
$1 = approximately 5.5 DH

Government Structure: Morocco is a constitutional monarchy. The constitution of 1972 provides for separation of executive, legislative and judicial powers and for a multiparty system. There are a number of active parties representing a broad spectrum of political, social and economic thought.

The King, His Majesty Hassan II, is head of state. The constitution accords him extensive rights to initiate constitutional reforms, declare states of emergency, make appointments and, when required, dissolve the parliament. Ministers are accountable to both King and legislature.

While many countries have had little or no increase in gross domestic product in recent years, the growth rate of Morocco's GDP has been a steady 4.5 percent. The GDP was more than 70 billion dirhams ($12 billion) in 1980.

A balance-of-current-account deficit of DH 5.6 billion ($1 billion) was due to factors including a softening in demand for phosphates—the country's major export—bad weather conditions and increased import prices of oil and capital goods needed for development.

But because of foreign direct investments, capital transfers and economic assistance, Morocco was able to cover the deficit and keep its balance of payments in equilibrium.

The country's foreign currency earnings are generated from a variety of sources. A 1980 breakdown:

- DH 2.6 billion ($500 million) from exports of foodstuffs.
- DH 3.7 billion ($700 million) from exports of minerals.
- DH 2.6 billion ($500 million) from exports of industrial products.
- DH 1.7 billion ($310 million) from tourism.
- DH 4.2 billion ($770 million) from remittances of Moroccans working abroad.

A five-year development plan (1981-85) is aimed at achieving an annual GDP growth rate of 6.5 percent. This presupposes an annual growth in investment of almost 8 percent in real terms.

Over DH 70 billion ($12 billion) has been allocated for the plan in addition to DH 3.5 billion ($650 million) for special regional development projects.

The plan assigns top priority to agricultural, industrial and tourist projects.

Agriculture

Agriculture employs more than half of the working Moroccan population. It accounts for 18 percent of the GDP.

An agricultural area of 7 million hectares (18 million acres) produced in 1980 more than 4.5 million tons of cereals, of which 1.8 million tons were wheat; 1 million tons of citrus fruit; and over 2 million tons of sugar beets.

Agricultural exports increased to more than DH 2.6 billion ($500 million) in 1980, a 14 percent increase over 1979. Citrus fruits (772,000 tons), tomatoes (100,000 tons), potatoes (43,000 tons) and other vegetables (167,000 tons) were the main exports.

Although the country's most important goal is to achieve and maintain agricultural self-sufficiency, this sector has become increasingly export-oriented.

Fisheries

Fishing in the past 10 years has become more and more commercially important. About 50,000 people are employed in the industry, the country's most important source of livelihood after minerals and agriculture.

The Atlantic Ocean provides most of

Modernity—not that old quarter, the casbah—is representative of urban Morocco.

Morocco's seafood catch. The 1980 catch was estimated at 300,000 tons, much of it processed into fish meal, other fertilizer-related products and animal fodder.

Morocco is the world's largest producer of sardines. Other important types of seafood are tuna, mackerel, anchovies, shrimp and lobster. About 70,000 tons are preserved each year, and more than 46,000 tons were exported in 1980.

Production of seafood could be doubled or even tripled if this resource is exploited fully and scientifically. In the past few years several joint venture fishing companies involving Europeans and Japanese have been established.

Industry and Mining

An impressive 32.2 percent of the GDP was generated by industry and mining in 1980.

Rock phosphate, used in production of fertilizers, is Morocco's most important mineral resource. Morocco is the world's third largest producer of phosphates, after the U.S. and U.S.S.R., and the world's largest exporter. The country's proven reserves of highest grade ores are estimated at 8 billion cubic meters, 66 percent of the world's known reserves. In 1980 rock phosphate accounted for 26.2 percent of the country's GDP. Exports totaled more than 17.6 million tons, earning the country DH 3.7 billion ($675 million).

Major deposits are located at Khouribga and Youssoufia, which have annual production capacities of 17 million and 5.7 million metric tons respectively.

Exports of phosphate are expected to increase and Morocco is expanding its capacity to process the raw material into phosphoric acid and superphosphates. A major step in this direction was construction of the Maroc Phosphore I and II plants. Other plants are planned for the future.

Construction of a facility for extracting uranium from phosphates, shown to be feasible with use of advanced technology, is under consideration.

Copper ore is currently produced at Marrakech, Tiznit, Ouarzazate and Agadir. Almost all the production is exported. In 1980 more than 24,000 tons of copper exports earned the country over DH 56.6 million ($10.3 million).

Large reserves have been discovered at Beleida, 50 miles southeast of Ouarzazate, and DH 250 million ($45 million) has been invested in an ore production project there.

Morocco is rich in other minerals. It is a major source of cobalt, coal, iron ore, manganese and lead. The Bureau De Recherches Et De Participation Minieres coordinates mining development programs, feasibility studies and mineral exploration.

Export Promotion

Morocco has a mixed economic system, and both the public and private sectors are contributing to industrial output. Certain activities such as minerals production and utilities are state-controlled, but the government encourages private enterprise.

In the 1950s and 1960s, Moroccan industrialization was characterized by a drive to substitute domestic consumer goods for imports. But the government now gives as much priority to export-oriented industries. Its export promotion policy was planned as a way to reduce the deficit in the balance of current account.

Morocco is indeed well endowed for exports. It has a wide range of primary products to be processed. They include minerals that can be transformed into semifinished or finished goods, the products of fisheries and a varied handicraft production—carpets, pottery, etc.

There is also diversified industry in the textile, leather, electrical, chemical, agricultural and other sectors.

Morocco exports a wide variety of items either under sales contracts or under subcontracting arrangements with foreign firms.

It offers interesting opportunities to business people, Moroccans and foreigners alike.

Tourism

Morocco's rich history is one of its attractions for tourists. Phoenicians, Romans and Vandals found their way to its shores. The Berbers in the northern part of the country were for some time influenced by the Romans, and many adopted their language. In 681 A.D. the Arabs arrived.

Arab and Berber cooperated and quarreled, fought side by side and against one another, and over the centuries took turns ruling the land. At the apogee of their power, Moroccan dynasties such as the Almoravides and Almo-

MOROCCO

hads extended their rule into most of the Iberian Peninsula and as far east as the frontiers of Egypt.

Art, architecture and intellectual activity flourished. Many of Morocco's most enduring monuments, such as the Tower of Hassan in Rabat and the Koutoubia Mosque in Marrakech, date from this period in the 11th and 12th centuries.

Morocco has developed rapidly as a tourist center during the past decade. Tourism is now responsible for 200,000 jobs and is an important source of foreign currency.

Because of a pleasant year-round climate and spectacular natural scenery, as well as historical sites, more than 1.2 million tourists visited the country in 1980, generating receipts of DH 1.7 billion ($310 million).

The government is giving great importance to promoting tourism and developing infrastructure. As a result the country boasts more than 60,000 beds in classified hotels as well as more than 12,000 in vacation camps. There are about 25 five-star hotels and 70 four-star hotels as well as more than 120 three-star hotels providing facilities for sports, other relaxation and cultural enrichment.

Because international class hotels are concentrated in well-established tourist areas such as Casablanca, Marrakech and Rabat, the government has become increasingly interested in developing newer areas. The Office National De Tourisme has built several pilot hotels to encourage further tourist development efforts in several regions.

The government offers many special incentives for investment in the tourist sector. These include the possibility of 100 percent foreign ownership; tax exemptions of up to 10 years, depending on location; and long-term, low-interest financing through the Credit Immobilier Et Hotelier.

Ties With the U.S.

Economic relations with the United States are limited and do not reflect the quality of the political ties between the two countries. This is partly due to the geographical position of Morocco, only 12 miles from Europe across the Straits of Gibraltar, and to historical ties with France. Morocco would like to diversify its economic ties with the U.S. as well as other countries.

His Excellency Azzedine Guessous, Minister of Commerce, Industry and Tourism, clearly stated this during an official visit to Washington in 1980, when he signed with the U.S. Secretary of Commerce an agreement on setting up

a joint committee for economic relations. The committee's task:

• Study problems relating to the development of trade between the two countries.

• Identify and examine problems affecting exchange of technology.

• Recommend specific actions to strengthen cooperation in trade, investment and exchange of technology between the two governments and between agencies and organizations in the two countries.

The joint committee's first session took place last January in Morocco. U.S. Secretary of Commerce Malcolm Baldrige attended.

It is hoped that this committee's work will lead to stronger economic relations, as well as a decrease in Morocco's balance of trade deficit vis-a-vis the U.S., which was more than $221 million (DH 1.2 billion) in 1980.

This deficit prompted Moroccan authorities to carry out a thorough study of the American market for certain groups of products, including wearing apparel (knit and woven fabrics), leather goods (jackets, shoes and accessories), handmade carpets, cork and herbs.

Reasons for Investing

Many American firms have invested in Morocco. Among them are Coca-Cola, Colgate-Palmolive, Dow Chemical, Firestone, Gillette, Goodyear, Procter & Gamble, Warner-Lambert and Xerox.

More American ventures are welcome. There are viable investment opportunities in many fields. They include poultry processing, cheese manufacturing, onion and garlic dehydration, dehydrated soups and prepared meals, biscuit making, fish canning, bottling of mineral water and citric acid production.

Outside the food area there are opportunities in fields including refrigeration equipment, flat glass, low density polyethylene, industrial paint, motor pumps, elevators, sewing machines, irrigation equipment, conveyors, cotton poplin, solar energy, and maintenance of heavy electrical and electronic equipment.

Morocco firmly believes in free enterprise, and its stable, democratic government considers foreign investments important in economic planning for national growth.

The country's proximity to European, Middle Eastern and African markets and its preferential trade agreements with the European Economic Community and a number of African and Arab states make Morocco an excellent place for export-oriented investments.

Inside Morocco there is also a growing domestic market, a low-cost, skilled and highly productive labor force and a first-rate infrastructure of communication facilities.

Morocco possesses what is probably the best road network in Africa. The railroad system is being expanded and upgraded. There are eight international airports in major cities, with regular flights to Europe, Dakar and Abidjan, North and South America and the Middle East.

There is an industrial zones program in 25 major cities. Long-term loans are available at attractive rates from the National Bank for Economic Development, especially for small and medium-size companies, and there is a program of insurance against political risks for U.S. private investment.

That is not all. Other incentives for foreign investors include a 10-year tax holiday under certain circumstances, duty-free entry of equipment and material, exemption from the turnover tax, business tax and export tax, and guaranteed repatriation of dividends and capital.

Morocco—its government and its people—hopes for increased economic relations with the U.S., to the mutual benefit of both countries. □

ACKNOWLEDGEMENTS

This special section was produced with the cooperation and assistance of His Excellency Azzedine Guessous, Minister of Commerce, Industry and Tourism; Bennani Smires, general secretary of the ministry; Mohammad Guedira, managing director of Morocco's Center for Export Promotion; and other officials of the center. The time and effort they devoted to its planning and preparation made the section a reality.

Morocco's industrial scene is varied. Directly below: a mine that yields phosphates, the country's No. 1 mineral resource. Left: wools used in handmade carpeting. Below them: vats in a leather tannery.

You might not expect to find skiing in an African country, but Morocco has snow in its mountains that attracts foreign tourists. It also has a semi-arid zone, plateaus and rich plains. Above: the famed Koutoubia Mosque.

To Be or Not To Be a Reference

By Harry David

Last June, NATION'S BUSINESS *published an article titled "The Art of Checking References." The article below offers cogent advice to the reference.*

YOU HAVE BEEN chosen before, and you will be chosen again. Someone will ask you to be his or her reference, and if you are like most of us, you will blithely say yes. That may be a mistake.

Unless you are absolutely sure that you can endorse the man or woman who chooses you, there is a two-letter word you should use: No.

"Being a reference," observes Alan Caldwell, an executive with Del Monte's Washington office, "is a whale of a responsibility."

To enter this relationship lightly is to shortchange the person who asked you as well as the other party—be he a prospective employer, partner or banker.

Saying yes to someone you don't know well and whose achievements are a mystery is not an act of kindness. The sophisticated employer who is calling you will spot your hesitation and probably draw conclusions that are flattering to neither the candidate nor you. If you manage to sound convincing, everyone may be in trouble.

Some years ago, at the urging of a friend, I said yes to a young man whom I knew superficially. And then the call came. The executive on the other end apparently didn't realize that I was hesitating and that my answers were less than complete. He hired the man. A few months later, he fired him.

It so happens that the executive was an acquaintance of mine. We still have lunch now and then, but over our repast there hovers the ghost of the young man who was the wrong person for the job.

As Caldwell puts it, "Be honest with both parties. Be fair to both."

LET'S FACE IT, you are chosen as a reference for your position and recognizability. Says Nick Laird, Houston-based vice president of public affairs for Aminoil, "Job seekers feel that your status by itself will impress the employer."

Some people will choose you because you are a sitting duck. For example, your boss' nephew may decide that you would make just the right kind of impressive reference. You can't easily say no. And he knows it. "Internal expediency," a friend of mine calls it.

Says Robert Robertson, vice president of Occidental International Corporation, "When a co-worker has asked me to be a reference for one of his relatives, I have let the prospective employer know the relationship."

To be or not to be a reference is a legitimate question, one you should ask yourself when someone approaches you with a request. You have no obligation to say yes.

Many people say no. "When I don't know the individual well," one executive says, "I suggest that he find someone who knows him better."

Taking seriously your responsibility as a reference means knowing more than superficial facts about the candidate. Sometimes we don't know as much about other people's jobs as we think. "All professions are conspiracies against the laity," said George Bernard Shaw.

What exactly does the candidate do? How does he do it? What are his strengths and weaknesses—professionally and personally?

"If I agree to be a reference for someone I don't know well," says Edward V. Garlich, Jr., president of the financially oriented research and consulting firm, the Washington Forum, "am I serving the employer? Or am I possibly setting him up?"

Most references say that if they know the candidate well enough but he is not to their liking, they will suggest that he find another reference. In such a case David H. Foster, former president of the Natural Gas Supply Association, a producers' group, will say, "I

HARRY DAVID *is head of H.D. Associates, a Washington, D.C., executive recruiting firm.*

would have to be more guarded in talking about you than you would like—or than would be profitable to you."

A poorly informed reference can make or break not only a job search but also a career—or a potential business deal. But a good reference can be a tremendous help.

"Sometimes the person who calls me about a job candidate is an unskilled interviewer," says Garlich. "So I will address questions that have not even been asked if I think this will help the caller understand the person for whom I am a reference."

Harold H. Griffin, a former executive of Family Health Program, a California-based health maintenance organization, says, "If I really want to help someone—and why else would I be his or her reference?—I will give more information than is asked of me. The caller may not know some favorable facts."

WHEN THE CALLER asks you whether the candidate is a good communicator, for example, respond with interpretation, if required. "I have seen some of his reports," you might say, "and they were clear and precise. By the way, he has a knack for writing about technical matters in a way that those of us not acquainted with the subject can read and understand."

That not only gives the other party an answer to his question, it also tells him something more. The candidate's ability to convert the obscure into the easily understood may be important to the executive.

Here's how David Sharman, staff director of a House of Representatives subcommittee, sees his responsibility: "I'll go out of my way for someone I regard highly. I'll not only add information, but if I think it will be helpful, I'll interpret it."

What the experienced references are saying is that you should be an active participant in the reference call. Merely to answer questions—as some references do, briefly—is not productive and can even be counterproductive.

Once I asked the head of an organization about a former employe. I knew a good deal about him already, all good. So I was surprised when the executive answered my questions monosyllabically and, it seemed, grudgingly. Questions about the candidate began to pop into my mind. Then I called a man familiar with the executive and related the conversation to him. My informant laughed.

"That's the way he is," he explained. "As long as he does not say anything bad about someone, it means all is well."

You need not overflow with the milk of human kindness. A sophisticated executive is unlikely to believe in miracles and will discount glowing phrases—or disregard your information altogether. You will soon be known as an easy reference, or worse, a person of little judgment. So be ready to discuss the person's shortcomings.

> "Endorsing the wrong man or woman may come back to haunt you."

Occidental International's Robertson says, "As soon as I am asked, I catalog in my mind all the positive factors about him or her; next, I ask myself whether I know anything negative. One thing is certain: I will not be dishonest with anyone who calls me. A couple of times I have been stuck when I took the word of a reference who told me a one-sided story. I won't do that to others."

You should also be able to talk knowledgeably about the heart of the matter involved—the job, the potential partnership, whatever may be at stake.

Before he answers any questions, the Gas Supply Association's Foster wants to "get a clear picture of who is calling and what position he is trying to fill. That way I get the facts I ought to know—and I also know it's not a credit call. That happens. Now, to obtain that kind of information, I must be speaking to the decision maker, not his personnel director.

"I also probe with questions of my own. For example, if I am asked how well the candidate works in a group, I'll ask, 'What kind of group are you talking about? A board of directors, an editorial board, a committee drafting a position paper?' To me, a vague question does not deserve a vague answer. It deserves further exploration."

Most of those who want you to be a reference will ask whether you are willing. But there are always those who never check with you.

The surprise call annoys some: "If someone wants me to be his reference, he'd better tell me beforehand," says Caldwell. It makes others uneasy: "I'm hesitant about talking to anyone on that basis," explains Sharman. "I'll still answer questions, but I won't be forthcoming," declares Griffin.

Sometimes the caller may be not an employer but a friend of the job seeker trying to learn what kind of reference you would make.

Such pretend-reference calls are made more frequently than you might think. "Somebody not too long ago asked me to make such a call," an acquaintance tells me, "to find out what things were being said about him. He felt that one of his references was trying to torpedo him. I refused."

So treat surprise calls with caution, especially if you have not established the caller's identity. You might even say that you are in a meeting and ask him to leave his number.

For those who are frequent references, here is a Reference's Pledge:

- I shall say no if I don't know the candidate well or know too much that's bad.
- I shall say yes to men and women I know and admire and believe capable of further achievement.
- I shall be helpful to unskilled reference callers.
- I shall not hesitate to spell out flaws.
- I shall add information and analysis if that appears desirable.
- I shall ask about the caller's business and the job he wants to fill.
- I shall make sure I am talking to the party I ought to be talking to.

TAKING your job as a reference seriously can have its rewards. After a friend of mine endorsed a deserving applicant for a key position, he received a call from the president of the company. "You did us a real favor," the executive said. "Thanks to you, we brought a first-rate person on board."

My friend also issued a warning: "Endorsing the wrong man or woman may come back to haunt you," he said. "After all, you may be on a committee or have dealings with the employer to whom you sold the wrong goods."

James C. May, vice president of public affairs of the Grocery Manufacturers of America, sums it all up: "When you give a reference, you are, in effect, recommending that person, and so you put your name and credibility on the line. You don't want to do that frivolously." □

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"That takes the biscuit!"

Furniture That's a Smash Hit

IT WAS a most memorable party. The hangover is gone, but today, nearly eight years later, the remedy survives as a testimonial to entrepreneurship.

Steve Robertson, 26 at the time, recollects it was a "boisterous, very boisterous" party. In fact, by evening's end, Randall Ward's apartment was devoid of usable furniture. Tables, chairs—all had been smashed during the revelry.

The party's host, 28-year-old Ward, had had a disillusioning day. Some months earlier he had given up a boring sales job with a New York textile firm to start his own building business in Raleigh, N.C. The business went broke. A party, a spirited celebration of failure, seemed apropos.

Robertson, like Ward, was a graduate of North Carolina State, but the two hadn't known each other at school. Filled with wanderlust, Robertson had spent the years after college sailing the South Pacific. He returned to the U.S. to apply for an Australian work visa so he could teach sailing in Australia. While in Raleigh, scratching for pocket money, he worked for Ward one day—the final day.

PHOTO: RICH NICHOLSON

Durability that allows feet-up comfort is one reason This End Up furniture has made successful businessmen out of Steve Robertson (left) and partner Randall Ward.

The morning after, viewing the wreckage, Robertson worried about his new friend's lack of furniture. He came up with the throbbing idea: fashion primitive but sturdy chairs and tables from the wooden packing crates he had brought back from Australia.

"When friends saw the crate furniture, they thought we had something," Robertson recalls. "They told us to try to market it. Since Randall and I were out of work, that weekend we took the newly made pieces down to a local flea market."

That was in 1974. When asked what total sales now run annually, neither man gets specific. They hint, however, that the figure is close to $10 million.

At the flea market the entrepreneurs took deposits along with the orders and used the money to buy lumber and tools. "That first year," recalls Robertson, "we each put in 80 hours a week. We'd take orders and sell pieces at the flea market on weekends, build the furniture during the day and then deliver it at night." Only the original pieces came from packing crates. This End Up Furniture Company now uses kiln-dried southern yellow pine, cut in its own sawmill.

After a year Robertson phoned his sister and brother-in-law—Libby and Stewart Brown—to ask whether they'd like to open a store in Richmond as a side venture to Brown's stockbrokerage job.

They did, and 12 months later, with five stores scattered throughout Virginia, Brown left the stock and bond business to devote full time to This End Up furniture.

Today's 45 stores are spread along the East Coast from New York to Atlanta. Ward foresees 12 more opening this year, including several in the Midwest and Southwest. The stores just take orders; they do not stock furniture. Delivery time is four to six weeks.

More than 35 pieces—from couches (weighing 180 pounds and containing 200 board feet) to small end tables—are made in the company's two Raleigh plants. All the wood is stained the same color, but the upholstery on couches and chairs makes use of 30 fabrics.

The furniture is ideal for cottages and recreation rooms, explain Robertson and Ward, adding that an entire living room—eight pieces—can be purchased for under $1,000.

According to Robertson, This End Up Furniture Company has dozens of competitors now making similar furniture. "One of the smartest things we did in the beginning was to patent our designs," he says. The company has been to court several times to fight infringements on its products.

Robertson and Ward each own half of the manufacturing portion of the company. All but nine stores in the retail operation are owned by the Browns.

BOISTEROUS PARTIES are over for Robertson, now 33, and Ward, 36, but they remain bachelors and run the company in a relaxed, almost casual manner. They try not to be workaholics. The 85 plant employes, who punch no clocks and work no set hours, follow their example.

"We pay them well for what they produce, and as long as we get the orders out, they can work or not work as they please," according to Robertson and Ward.

The young men contend the key to their success, in both sales and production, is to be "honest with your employes and your customers." It's a philosophy that keeps paying off for This End Up Furniture Company.

"Every week we do more business than we did the entire first year," says Robertson. □

—Del Marth

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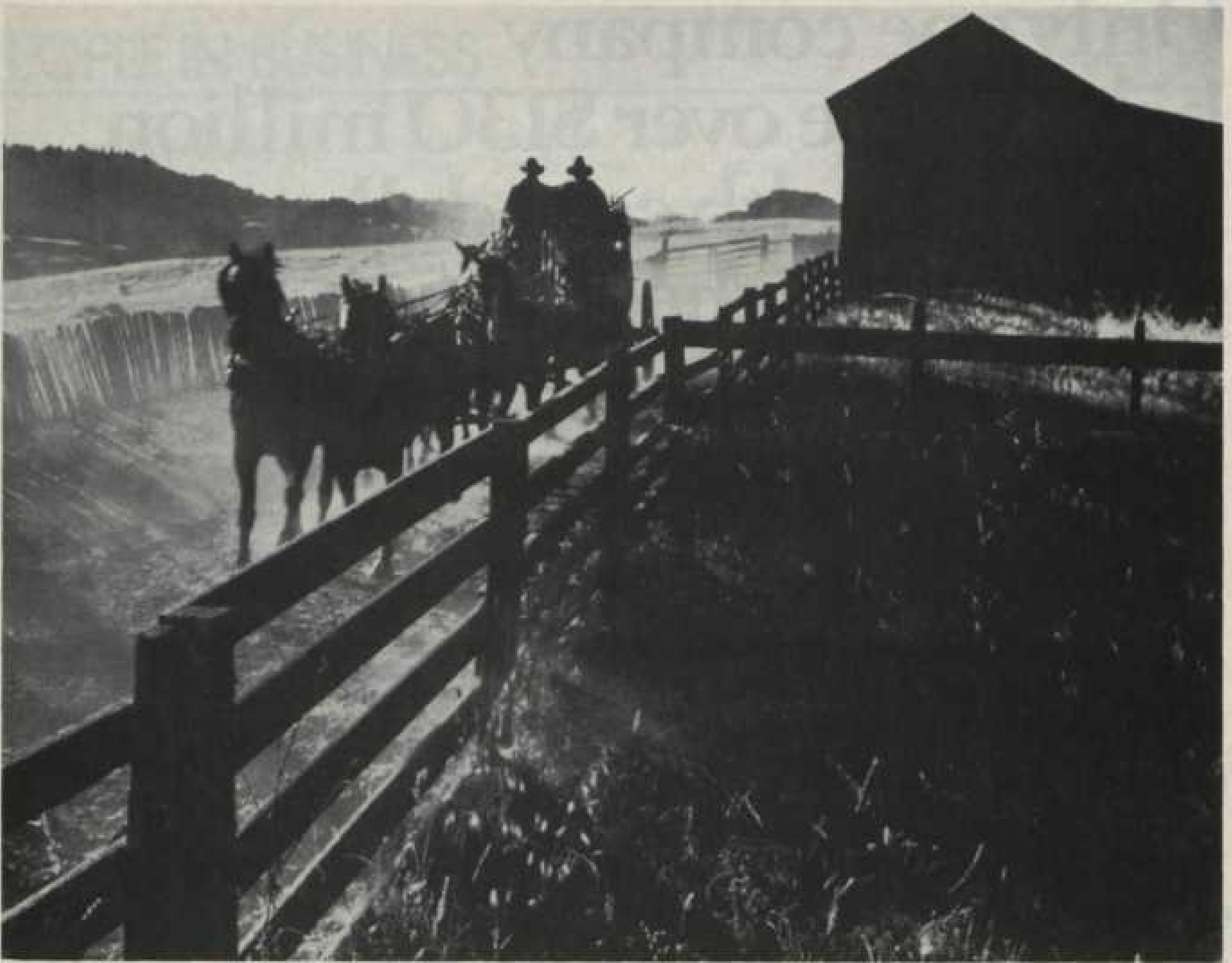

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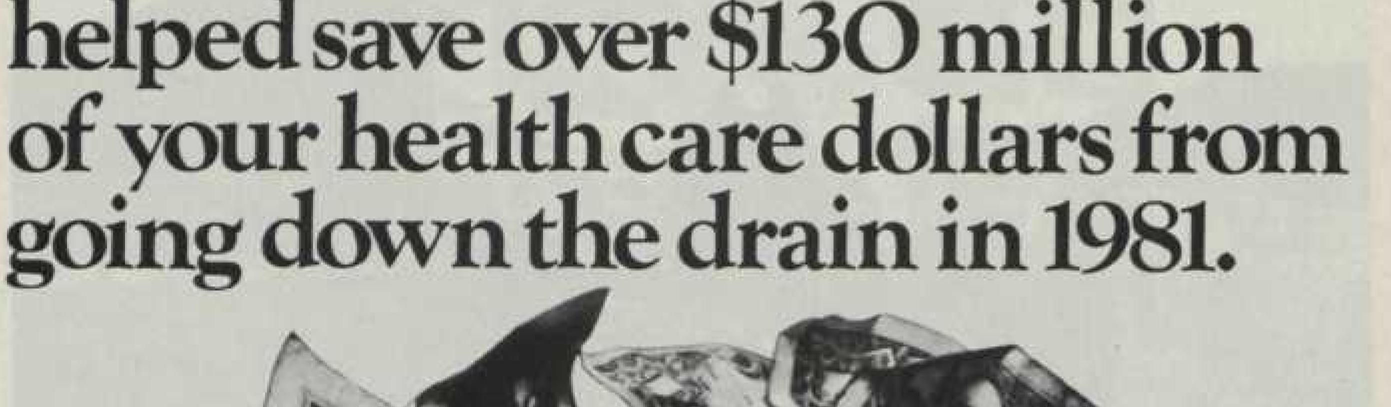

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WASH/E/20

By Mary Tuthill

Rent-an-Antique For the Office

Collecting only the best pays off. That's the lesson Mark Slotkin, then 18, learned when he got $25,000 for a coin collection on which he had spent much of a generous allowance.

In college he earned a degree in business administration at the University of California at Los Angeles, and in 1969, after a few years of varied business experience, he capitalized on his love for old things. He had his 19th-century carpetbag copied, and he then sold 500 of them door-to-door. In New York, where he opened a showroom, he sold the bags to every major department store, including Bloomingdale's. By 1981 his company, Carpetbags of America, had sales of about $13 million.

Slotkin was still collecting in 1976 when he got the inspiration of making antiques available for rent. The idea seemed workable to him because he had watched his father, Stanley Slotkin, establish Abbey Rents, now the largest chain rental outlet in the country for items ranging from party supplies to medical equipment.

With money from Carpetbags of America, Slotkin started Antiquarian Traders with headquarters in an old warehouse in downtown Los Angeles and a showroom not far away. His timing was right: Executives were showing interest in creating a personalized office environment. "The common need that we meet for all our clients," Slotkin says, "is for an elegant, upbeat image."

Slotkin collects antiques all over the country, particularly in New England and upstate New York. Clients may choose from more than 100 Wooten desks of various types and another 6,000 antique desks, chairs and other pieces of furniture. All pieces have been restored, and some have been modified for modern office use—chairs can be raised, for example, or made to swivel.

Some of the antique pieces are discovered in a state of neglect, often cracked and splintered. Then Slotkin's craftsworkers set about bringing the bird's-eye, walnut and other rare woods back to life, revealing their original beauty.

Approximately 90 percent of his clients rent furniture for commercial offices; the rest furnish an office at home or an entire home on a lease basis. Some clients want to purchase just one or two special pieces.

"We also do a very substantial business with movie studios," Slotkin says. "They like to rent our antiques for 19th-century settings. We've done everything from a special on the Wright brothers to a television movie on Dracula.

With showrooms in Los Angeles, San Francisco and Orange County and one planned for New York, the company grossed more than $1 million last year. It has a staff of 50, many of them master craftsworkers.

Slotkin, 41, is now looking for new markets in real estate. "Homeowners, building contractors and real estate brokers want to show off a residence at its best," he explains. "We can decorate one room or an entire house. The buyer sees what the house will look like, and the seller has maximized his profits."

Mark Slotkin helps personalize executive offices with choice antiques.

PHOTO: T. FOOR & ASSOC.

Tapping the Tape Market Potential

In 1972 New York–born Jeffrey Norton, with a background in editing, publishing and information services, decided to start a computer-based information publishing company of his own. "I was tired of working for someone else," he says, "developing new ideas and then having them shot down for reasons of company policy or finances."

Although he thought the idea behind Jeffrey Norton Publishers was sound, it did not take him long to see that his financial footing wasn't. He had financed the opening by a private placement of stock, and when the market took a dive in 1973, things looked bleak.

"I decided to switch to the audio business because up-front and inventory costs were lower," says Norton. "I operated almost as a cottage industry in order to survive. Sometimes I'd wait for an order to come in before duplicating a tape, and I often erased unsold tapes to record something else."

The selection Norton offered included speeches by Margaret Mead and C.P. Snow, the only speech Albert Schweitzer made in the U.S., and one that Ronald Reagan made in 1968 in his first try for the Presidency. Norton's primary customers were public libraries and colleges, whose payments were frequently slow in coming. "It took almost five years to break even," he recalls.

In 1978 his company was sound enough to allow him to acquire Audio-Forum, a tape company that stocked language self-instruction tapes, primarily for Spanish and German. "People kept asking for other languages," says Norton. "So we spent the better part of the next three years developing a comprehensive selection of self-instruction courses."

He now has 86 courses in 29 languages, including Swahili, Urdu and

Mandarin Chinese, which he says is very popular now and gaining on Russian. The courses emphasize the spoken word rather than grammar.

The purchase of Audio-Forum was a turning point for the business. "We invested $1,400 in an ad for a new French course," Norton says. "It ran in the Eastern edition of the *Wall Street Journal* on a Tuesday, and by Thursday of that week I had $1,600 worth of orders in hand." He had found the answer to how he could reach business people and professionals—the primary customers for his language tapes.

Norton, 56, has also expanded other tape lines. "We have gone from 250 tapes to about 4,000." They cover subjects ranging from American history, philosophy and religion to finance and how to take tests.

The company, with gross sales of $2 million in 1981, is now expanding into videotapes for schools. Also in the works are a cassette series on management techniques and a set of tapes he calls an executive listening library. Companies lend these tapes to employes, who can listen to them while commuting to work.

Norton now has a staff of 26 and expects to double his gross in the next two years. The company recently moved its headquarters from New York City to Guilford, Conn. Audio-Forum also has an office in London and was appointed the U.S. agent for programs of the British Broadcasting Corporation. "There has been little international trade in cassettes," Norton says. Referring to the joint venture he has set up in South Africa, he adds: "I intend to get a share of that trade."

PHOTO MARY TUTHILL

Jeffrey Norton listens to one of his company's many tape selections.

Mom's Recipe Goes International

PHOTO KIP BRUNDAGE

Jack Kalajian and his mother, Hannah, display their packaging machinery.

As a child, Jack Kalajian used to help out in George's, his parents' small grocery and lunch counter in Worcester, Mass. The mom-and-pop venture, named for his father, began as a grocery in 1940, and later his mother, Hannah, started serving food at a 12-stool counter adjoining the store.

Her specialty, an Armenian-style pilaf—a blend of rice, herbs and noodles—served with roast chicken, brought many requests for the recipe. But customers weren't satisfied with the results, so she began packaging the pilaf ingredients for them to take home.

In 1962 George's began losing business because highway construction diverted traffic. As the family planned for its survival, Hannah suggested selling the pilaf. Although Jack's father scoffed at the idea, his mother and two sisters began packaging and selling the pilaf mix. "It took hard selling," he says. "Back then pilaf was very foreign. My mother and sisters had to take bowls of pilaf to the stores so people could sample it and find out what it was." Recalling those days, Hannah says, "If I'd known how much work it was going to be, I would never have started."

Before long food brokers were showing interest in the company Hannah Kalajian had founded, Near East Food Products. However, without machines the firm could package only about 150 packages per day.

In 1967 Jack Kalajian, who was then working as an engineer, agreed to help his mother and sisters part-time for six months. "I saw that they needed help getting the products packaged, so I designed a very simple packaging machine that doubled the number of packages per day."

Instead of leaving, he stayed as an adviser and became president of the company in 1970 when his mother retired. He soon had the factory fully automated and also reformulated the recipes to take out preservatives and artificial colors and flavors. Now 100 percent natural, the products taste just like what his mother used to make.

The company, now in Leominster, employs 20 people and has built two additions to the plant in the last six years. The second addition, 7,000 square feet of air-conditioned space with skylights and new equipment, increased production to 10,000 cases a day.

Kalajian, 46, has expanded the line of Near East products to include rice, wheat, Spanish and lentil pilafs; tabouleh, a bulgur wheat salad mix; couscous, a Moroccan dish made of semolina; falafel, a vegetable burger mix; tahini, a ground sesame paste; and canned Turkish coffee. They can be found in many supermarkets, health food stores and specialty shops and cost about $1 a box.

Near East Food Products is now a multimillion-dollar business with sales nationwide and in England, Australia and Canada. "We expect a 30 to 35 percent increase in sales in 1982," says Kalajian. His newest product is a long-grain and wild rice blend, and a low-sodium product is being considered. □

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Outlaw Usury Laws

INTEREST RATE CEILINGS "are an unwarranted intrusion into the marketplace. Whatever useful function they may once have performed has long since disappeared." That's what Robert R. Hudson, president of Landmark Financial Services, Silver Spring, Md., thinks of usury laws.

He has lots of company. Roughly two of three respondents vote yes on the NATION'S BUSINESS February Sound Off question: Should state usury laws be abolished?

"I am tired of turning down loans to good, honest, hardworking people, not because they are poor credit risks, but because we cannot afford to lend out money at our state's present usury ceiling," says Fred Simmer, president of Chillicothe State Bank, Chillicothe, Mo.

Frank St. Charles III, executive vice president of the United Southern Bank, Nashville, makes another point. "Interest rates are influenced directly by our national economy," he says. "Depositors are very sophisticated today and seek the highest rate possible. If a state has a usury ceiling that does not permit its banks to be competitive in pricing, then deposits will flow to neighboring states. Unfortunately, many state legislators don't understand this."

However, supporters of usury laws fear that getting rid of the ceiling would be advantageous only for the banks. "The control the banking industry already has in our country is excessive," says Larry O. Hutchinson, owner of Hutchinson's Furniture, Bullhead City, Ariz. "Eliminating usury laws would be healthy for the bankers but disastrous for individuals and small business."

Adds William T. Brenner, sales representative for Union Carbide Corporation in Rolling Meadows, Ill.: "Usury laws protect the low-income and lower-middle-income groups. Remove the ceiling and it would be chaos for these people."

J.W. Allan, owner of Arkansas Wood Doors, Russellville, Ark., warns, "If interest rates are allowed to float, they will, like all other items that float, come to the top. We have already seen how high interest rates, among other things, brought products and money to the point where we cannot afford either."

G.P. Mitchell, vice president of Sigma Coatings, an industrial paint manufacturer in Harvey, La., believes that "the criminally high interest rates we have now are greatly responsible for our recession." Although he advocates keeping state usury laws, Mitchell suggests that "a more uniform usury law nationwide would enable people to again buy new cars, homes, appliances, etc. It would put our economy back on the right track."

Although Richard Boggs, a Raleigh, N.C., landscape architect, argues that usury laws are necessary, he disagrees with Mitchell. "Just now we are beginning to dismantle the excessive federal control in matters that states can better handle themselves. The interest rate limit is one of those matters. Keep the federal government out of it."

FROM THE OPPOSING camp comes Wayne Gay, business manager for Baxter County Newspapers, Mountain Home, Ark. "The usury law in Arkansas is only stifling business. In this state the usury law is part of the state constitution, and getting a constitutional amendment through has only a slim chance or none at all."

Richard M. Brisky, president of Continental Financial Services, Ischua, N.Y., points out: "In today's business climate, usury laws do not help the borrower but instead hurt businesses of all kinds. The law of supply and demand should be allowed to control interest rates. The public will soon let it be known what they are willing to pay for interest, just as they do for other goods and services. Lenders should be allowed to make a profit just as other businesses do."

Edwin R. Biron, chairman and president of the Commonwealth Federal Savings & Loan Association, Lowell, Mass., concurs. "Capital should be allowed to flow freely throughout the United States in response to supply and demand. State-imposed usury ceilings impede such action and undermine the economic well-being of financial institutions in the process." □

BUSINESS LIFE-STYLE

A Big Hand For Handball

By John Costello

Every sport has its telltale signs. Say it's the dead of winter. Spy a guy or a gal sporting a well-autographed leg cast and chances are you've found what?

Of course, a skier.

Or on a warm spring day, when the babbling brooks are murmuring, "They're biting," that dreamy-eyed customer wearing an old felt hat gaily trimmed with a bright swarm of artificial lures could never deny what he's up to.

That's a trout fisherman.

But what about the man or woman with red, puffy palms who winces when you're shaking hands?

Easy—you're greeting a handball player with bone

bruises. Bruises? Sure, your palms take a beating in this lightning-fast game.

Even if his mitts weren't too tough to get them, a bruise or two wouldn't stop William D. Smithburg.

"I played all through college and most of the years since," says the 43-year-old president and chief executive officer of the Quaker Oats Company, Chicago.

"I'm one of those people who really enjoys staying physically fit. I think it makes you more mentally alert. To me, it's all part of a good, balanced life."

Bill Smithburg seldom fails to play weekly. Why handball, instead of golf, bike riding or chopping wood?

"Handball gives you an awful lot of exercise in just an hour's time. Plus a lot of competitive challenge. To me, business and handball complement each other. You have to put out a great deal of effort to be successful at either."

What does it take to make a person slip into a pair of shorts, pull on a skimpy set of gloves and pound the daylights out of a tiny ball almost as hard as a hockey puck that bounces from wall to wall at maybe 100 miles an hour?

"Motivation," says the 5-foot-10-inch, 165-pound executive.

"By the end of a long day, I'm a little bit stressed, sometimes even a little tired. But if I go out and play handball, all of the tension just drains away. It gets the adrenaline going, and I'm not tired any more.

"It relaxes me—physically and mentally—and gives me energy for the next business day."

Ireland has given America far more than St. Patrick's Day, Boston politicians and lovely, tearful ballads like "Mother Mo Chroi" to sing in the wee small hours.

For one, handball. Some trace it back to the days of the Roman Empire. Robert "Believe It or Not" Ripley claimed it was the oldest ball game known to man. But in recent times, it flourished in the Ould Sod.

In the 1800s, town and county championships were held all over the Emerald Isle. When Irish emigrants came to America, fleeing oppression or poverty, they brought the game with them.

The first four-wall championship court in the United States was built in 1886 or 1887 in Brooklyn. Early U.S. champions were as Irish as Paddy's pig—Phil Casey, James Dunne, Bernard McQuade, Michael Egan and James Kelly.

Eventually, the game moved west. Detroit promoted the first invitational tourney in 1915. The Amateur Athletic Union held national championship matches in 1919. Ditto the YMCA in 1926.

Four-wall, the oldest and most popular version, is a form of close combat held on a court 20 feet wide, 20 feet high and 40 feet long. Not roomy, but bigger than a phone booth. Inside that battleground, the ball ricochets from walls to ceiling to floor at the speed of a ball thrown by a major league fastball pitcher. A handball is smaller, livelier and much harder than a tennis ball.

The ball is struck with the palm or fist of either hand. As in tennis, it must be returned on the fly or after one bounce from the floor. The ball is still in play no matter how many times it bounces from wall to wall or wall to ceiling before it drops to the floor.

And like tennis, it's a game for two or four. But a player holds serve until he misses a shot.

What does it cost a handball addict to indulge in his favorite sport?

Well, there's gloves. "A guy who plays two or three times a week," says Vern Roberts, editor of the U.S. Handball Association's *Handball* magazine, "will use about 10 pairs a year at about $15 a pair. Shoes? Maybe six pairs at $20 to $30 a pair. Then about $400 a year for court time or for club memberships."

Ben H. Russell, product manager of court sports, Spaulding Sports Worldwide, says about 2.2 million balls are bought every year. At $5 for a can of two, that's $5.5 million worth.

Who buys all those balls? "About 6.5 million to 7 million players—men, women and juniors," Roberts says.

To Lt. Charles Merriam, the invitation from a friend to "let's go and play handball" must have seemed odd. There were such attractive alternatives. He was stationed in Hawaii at the Marine Corps air base at Kaneohoe Bay. That's on the windward side of

PHOTOS: ROBERT LEWIS

PHOTOS: USHA

Style makes the player. Rosemary Bellini (left) is the leading women's titlist. Tournament courts are made of transparent walls so fans can watch players go all out (center). Top-ranked Fred Lewis (right) displays his winning three-wall form.

Oahu, where giant breakers make for a surfer's paradise. Or, if hanging 10 doesn't thrill you, sunny beaches, languorous skies and breezes soft and sensuous as a sweetheart's kiss are a temptation to loll lazily on the sand.

Then, of course, there's the officers' club. But Leatherneck Merriam opted for the old, concrete-walled handball court beside it.

"I'm no surfer," he explains, "but sports have always been an outlet for me."

He learned the game there in 1957. Having served his hitch, in 1959 he went to work for Standard Oil Company in Indiana, where he's now manager of Amoco Enterprises, Amoco Oil. He joined the YMCA in Des Plaines, Ill., where he had an apartment, and now plays three times a week.

What does he find about the game that's so fascinating?

"Competition," he says. "That's my strong suit. I never give up on a ball. I get everything."

When she steps onto a handball court, Rosemary Bellini doesn't strike terror into the hearts of all male players. "In the men's division," she says, "I'd be about Class B or Class C."

But she should scare off any female competitor. At the U.S. Handball Association's national championships, she has walked away with the women's singles title two years in a row.

"That makes her the best woman player in the world," a USHA official says.

In 1980 her opponent in the finals couldn't handle Bellini's Z serve—off the front wall to the right side wall on the fly, then bouncing onto the left wall and dropping limply into the left rear corner. Score: 21-8, 21-5.

LAST YEAR, it was her low power serves to the same spot that did her rival in. Score: 21-3, 21-4. She and a partner won the doubles title as well.

Jimmy Jacobs, a fight impresario who is said to be the greatest four-wall champion of all time, was asked a couple of years ago by the *New York Daily News* whether Bellini was the best woman player he had ever seen.

"By about a million miles," he replied. "In the last 30 years, I've played with five or six fine women players. None could take 10 points off her."

At her home court, the Flushing YMCA—not the YWCA—she plays in tournaments. She and a male partner won the doubles championship once, and she has reached the men's Class B finals in singles.

"I learned the game as a teen-ager in Central Park," says the attractive 29-year-old Manhattan senior secretary at Sumitomo Corporation of America. "My younger brother, John, and I used to play every day in the summer. We started out on one-wall, then graduated to three-wall.

"Until I joined the Flushing Y in 1975, I never played four-wall."

When she did join, did the guys say, "Oh, my God! We don't want any women around here"?

"Basically, no," she says with a laugh. "Some of them didn't want to play handball with me. They said I just knew the right wall because I had played only three-wall. So I always got stuck on the right. Which I didn't mind, because at least I got to play."

But she was soon warmly welcomed into what is still looked on as pretty much a male sport.

"Back in 1980," she says, "I don't think I would have gone to the Nationals in Tucson, but the manager at the Y's Businessmen's Club arranged a raffle to send me there. All the guys took lots of books of tickets to sell. I think it was a dollar a chance. First prize was a basket of cheer.

"Each ticket had printed on it: 'Help send Rosemary Bellini to the Nationals.' They raised $500!"

George Brotemarkle, well over twice Bellini's age, was tearing up the courts in American Amateur Union national tourneys long before she was born.

"I've played every year since 1939," says the Los Angeles CPA, "except when I was in the service in World War II and last year, when my doubles partner was hurt."

With a partner, he has won the master's doubles title four times and finished second or third a dozen times. His contribution to the game, on and off the court, have put him in handball's Hall of Fame.

He has been treasurer of the USHA since its founding in 1951.

What does it take to be a consistent winner?

"You have to learn about 250 shots," he says, "different shots from different places on the court. Overhand shots, sidearm, underhand and back-wall shots—with the right hand and the left. You must be able to make them from short court, long court, and from the right and left sides of the court. There are kill shots, fist shots, lobs, power serves, crosscourts and hooks.

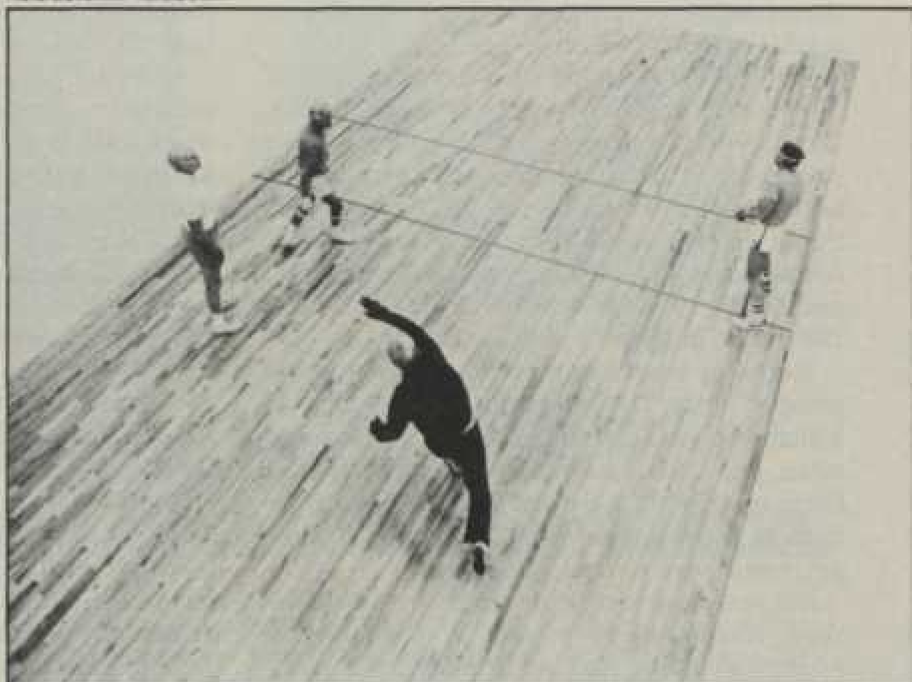
"In a game, 21 points wins. You have to make 500 or 600 decisions about shots in a match. If you make 10 more correct decisions than the competition, you win. If not, he does."

The game has meant a lot to the partner in the firm of Brotemarkle and Fadd.

"It is probably the greatest thing that ever happened to me," he says. "Accounting, you know, is a very demanding business. CPA's are supposed to wind up as cardiac cases or lushes.

"I'm neither. Handball has kept me healthy." □

PHOTO: JACK SPRATT—PICTURE GROUP



Doubles, anyone? Foursomes, mixed or otherwise, can enjoy the fast action and thorough workout of a game of handball. To win, you have to learn about 250 shots.

Where To Make the Cuts

CONGRESSMEN often ask those who complain about federal spending to say where they would make the cuts. That ploy usually muffles the criticism, since few groups have the expertise or courage to finger specific examples of budget bloat.

Big spenders seeking cover have to think of something else to ask witnesses from the U.S. Chamber of Commerce. Last month, Chamber President Richard L. Lesher sent every member of the 97th Congress a detailed list of additional budget cuts (beyond those already requested by the Reagan administration) that could reduce the anticipated deficit for fiscal 1983 as much as $33.5 billion.

Many of the Chamber's suggestions—grouped under 11 categories—would trim $5 million here and $50 million there. Nothing dramatic, just a steady whittling away. Moving the Consumer Product Safety Commission's functions to the Commerce Department, for example, would save $35 million.

But some spending cuts would be sizable indeed. More than 99 percent of the potential savings would be realized if the following proposals were adopted:

- De-index all federal spending programs—that is, prevent payments under these programs from rising automatically with some index of inflation. A three-month delay in such increases would save $6 billion. Complete elimination of indexing would save $26 billion for fiscal 1983.
- Make 14 changes in the way Social Security benefits are calculated. Aside from eliminating the windfall portion of Social Security benefits going to those who also have pensions from Social Security–exempt employment, none of the proposed changes would lower the basic retirement benefits of present recipients. Savings: $3.5 billion.
- Repeal the Davis-Bacon Act, which often mandates payment of uncompetitively high wage rates to workers on federally funded construction projects. Savings: $1.5 billion to $2.4 billion.
- Reform the Federal Employees' Compensation Act. Savings: $850 million.
- Use the same definition of disability for federal employes as for Social Security. Savings: $100 million to $300 million.
- Consolidate the Community Development Block Grant and Urban Development Action Grant programs. Savings: $200 million.

The Chamber's list is not the only possible list, of course. It does, however, serve as an instructive example to those politicians who have been throwing up their hands and proclaiming, "We just can't cut any more; we'll have to raise taxes."

As the nation's largest business organization, the Chamber used its lobbying influence to help pass the Reagan tax reforms. Lesher's letter warns against trying to unpass them. "Any major tampering with the Economic Recovery Tax Act will delay recovery," he says, "with the risk of an even higher budget deficit."

Federal revenues are at record levels now and climbing. The problem is not undertaxing, it is overspending. □

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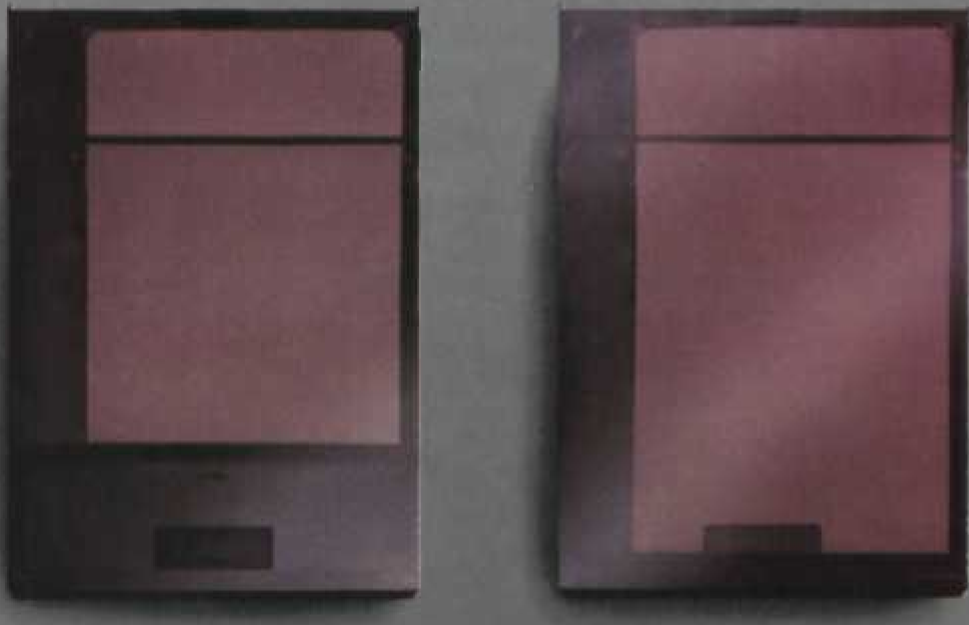

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